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City & County of San Francisco

# Retirement System Annual Report

For the Year Ended June 30, 2000



# City and County of San Francisco Employees' Retirement System

## *MISSION STATEMENT*

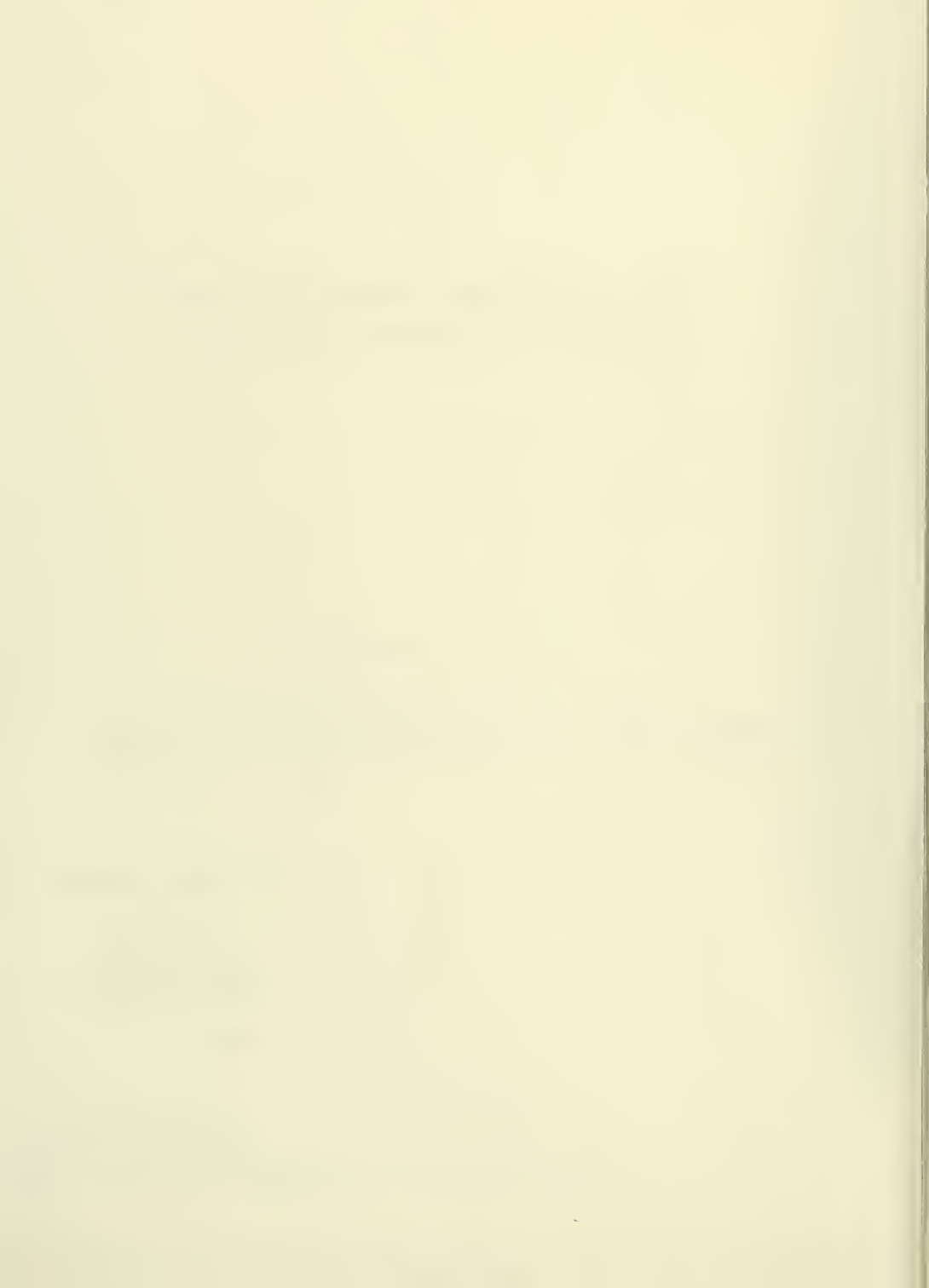
*San Francisco City and County Employees' Retirement System is  
Dedicated to securing, protecting and prudently investing the pension trust assets,  
Administering mandated benefit programs, and providing promised benefits.*

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**Annual Report  
For Fiscal Year Ended June 30, 2000**



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## President's Message

### INVESTING ASSETS ● PROVIDING BENEFITS ● SERVING MEMBERS

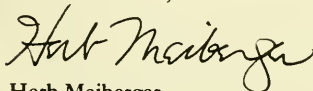
On behalf of the Retirement Board and the Retirement System staff, I am pleased to present our Annual Report for FY 1999-2000.

The last fiscal year was positive for the Retirement System's 48,000 members and beneficiaries. The pension Trust Fund's well-diversified portfolio grew to \$12.9 billion – assets dedicated exclusively to paying benefits to members and beneficiaries. Highlights affecting our customers include:

- *The Trust Fund's return on assets for Fiscal Year 1999-2000 was 23%, one of the highest among all public pension funds.* This result was largely attributable to the spectacular returns of the alternative investments portfolio, comprised of venture capital and leveraged buyout funds, as well as the superb relative performance of the international equity portfolio.
- The “excess earnings” of the Trust Fund are now sufficient to guarantee payment of the 3% Special COLA through June 30, 2003.
- In this fiscal year, the groundwork was laid for the November 2000 change in benefits for New Plan Miscellaneous members, providing them with basically the same benefit as Old Plan Miscellaneous members.
- The Deferred Compensation Plan continues to be successful with increases in both participants (11%) and in assets (26%). The transition of the plan administrator from Hartford to Aetna was seamless and successful as virtually all of the funds “mapped” to Aetna outperformed their Hartford counterparts. Aetna's internet site and self-directed brokerage option have improved customer satisfaction and given participants more help and flexibility in planning for their retirement.
- The Retirement System is improving service to members. The one-day pre-retirement counseling seminars include sessions on understanding and estimating pension benefits, the deferred compensation plan, social security and health services benefits, and have been well-received.

The enhanced funding of the pension fund has also enabled the Retirement Board to apply a zero contribution for the City and County of San Francisco. On behalf of the Retirement Board and staff, I can assure you of our continued efforts to invest the pension assets prudently and effectively and to pay benefits fairly with a high level of customer service.

With best wishes,



Herb Meiburger  
President, Retirement Board



# The Retirement System

The San Francisco Employee's Retirement System was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS § 457 plan.

Each of these benefit plans is mandated by specific San Francisco City Charter sections and/or Administrative Code provisions.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS § 457 Plan, provides participants a tax-deferred method of deferring part of their salary during employment for distribution after retirement.

## The Retirement Board

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets twice each month and reviews and approves important elements of Retirement System business, including:

### Pension Fund Investment

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

### Actuarial Funding

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

### Active and Retired Members

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost-of-living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.



## Administration and Management

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

## Members of the 1999-2000 SFERS Retirement Board

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

|                                                                   |                                   |
|-------------------------------------------------------------------|-----------------------------------|
| Al Casciato<br>Lieutenant, Police Department                      | Elected Member<br>February 2005   |
| Joseph D. Driscoll, C.F.A.<br>Lieutenant, Fire Department         | Elected Member<br>February 2001   |
| Herb Meiberger, C.F.A.<br>Security Analyst, Retirement Department | Elected Member<br>February 2002   |
| William Breall, M.D.<br>Cardiologist                              | Appointed Member<br>February 2004 |
| Brenda Wright<br>Regional Manager, Financial Services             | Appointed Member<br>February 2003 |
| Patricia E. Martel<br>Public Administrator                        | Appointed Member<br>February 2004 |
| Leland Yee<br>Member, Board of Supervisors                        | Ex Officio Member<br>April 2001   |





## SFERS Senior Administrative Staff

### Administration:

|                 |                     |
|-----------------|---------------------|
| Clare M. Murphy | Executive Director  |
| Jay Huish       | Deputy Director     |
| Kay Gulbengay   | Executive Assistant |

### Investment Division:

|                                          |                           |
|------------------------------------------|---------------------------|
| Carolyn Hamilton, C.F.A.                 | Chief Investment Officer  |
| Carl Wilberg<br>Equities                 | Senior Investment Officer |
| Richard Piket<br>Fixed Income            | Senior Investment Officer |
| Glen Schwartz<br>Alternative Investments | Senior Investment Officer |
| Donald Holcher<br>Real Estate            | Senior Investment Officer |

### Retirement Services Division:

|               |                                   |
|---------------|-----------------------------------|
| Maria Newport | Retirement Services Administrator |
|---------------|-----------------------------------|

### Actuarial Division:

|                       |         |
|-----------------------|---------|
| Kieran Murphy, A.S.A. | Actuary |
|-----------------------|---------|

### Fiscal Division:

|         |                  |
|---------|------------------|
| Les Win | Chief Accountant |
|---------|------------------|

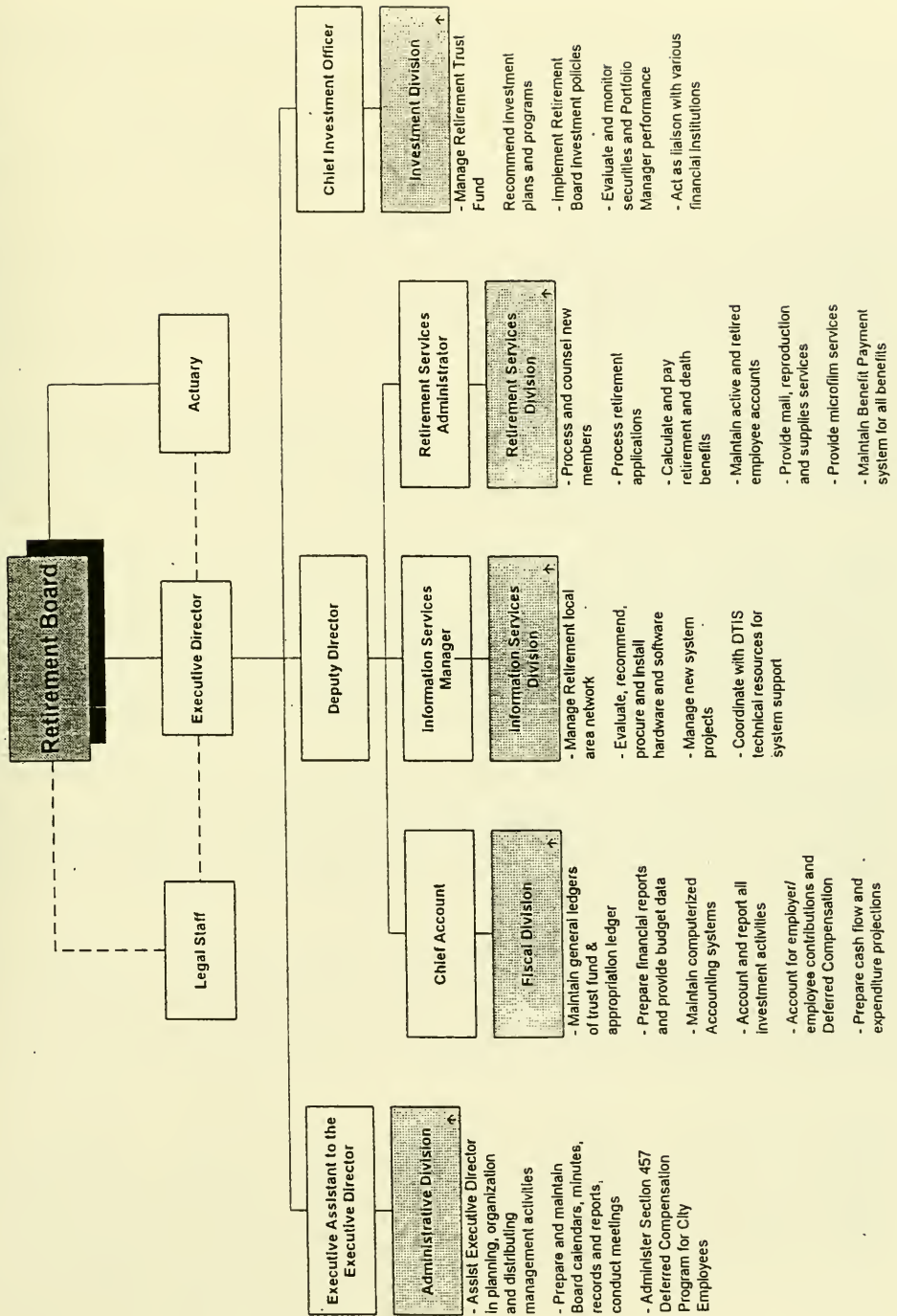
### Legal Counsel:

|             |                      |
|-------------|----------------------|
| Dan Maguire | Deputy City Attorney |
|-------------|----------------------|

The organization chart on the following page describes the organizational structure of the Retirement System and the major functional responsibilities of each division within the Retirement System.



# SFERS Organization Chart Fiscal Year Ended June 30, 2000





# Highlights of Retirement Board Activities for Fiscal Year 1999-2000

The SFERS Retirement Board conducted twenty meetings and addressed several significant issues during the 1999-2000 Fiscal Year.

## General Administrative Highlights

The 1999-2000 fiscal year saw the Retirement Board focus on two major policy efforts in addition to the traditional oversight covering benefits and investment activities of the Plan. The 1999-2000 highlights also include the move of the San Francisco Employees' Retirement System to 30 Van Ness Avenue and the successful transition to the year 2000 for the Retirement System's information technology systems. Other major activities concentrated on the implementation of recently passed Charter Amendments.

In March, the Retirement Board adopted the *Statement of Investment Principles and Beliefs* after several years of careful consideration. This high level document summarizes the Retirement Board's guiding principles and views which anchor the detailed investment policies, plans and individual manager guidelines. This document provides a standard against which investment decisions can be measured and a summary for review by participants, taxpayers and new Retirement Board members.

In February the Retirement Board initiated a policy addressing the Board's commitment to a high standard of educational programs and communications for plan participants and beneficiaries. This policy addresses objectives, standards and defines specific educational programs targeted for implementation over the next three years. The policy delineates staff authorized to provide counsel to participants. Educational efforts identified in the policy include expansion of the well received pre-retirement counseling seminars, development of a new participant orientation to the Retirement System and future efforts including mid-career and retiree programs.

Fiscal year 1999-2000 saw the Retirement System move to 30 Van Ness Avenue at the corner of Market Street and Van Ness Avenue. The move was completed on November 16, 1999. This new location places the System's offices in the heart of the City, at a major transportation hub for easier access by plan participants and beneficiaries. The new location includes space dedicated to the effective training of both staff and plan participants. The new member Services division space includes significantly expanded semi-private cubicles for individual member counseling.

The transition to the Year 2000 required considerable effort by staff and the Department of Telecommunication and Information Services, which the Retirement Board monitored on a regular basis. The Retirement Board decided to issue the December 1999 retired allowance checks on December 22, 1999 rather than expose retirees to possible Y2K difficulties regarding access to their funds. The transition was smooth with all information systems for benefits, accounting and investments experiencing no problems.

Policy determinations and implementation oversight for new Charter Amendments and budget initiatives occupied a significant portion of the Retirement Board's deliberations. Charter Amendment implementation covered approval of Buyout member options resulting from the passage of Proposition B in November 1998. The Board formalized procedures for Paramedics to secure firefighter credit for Paramedic service rendered in the Department of Public Health in May 2000. The March 2000 election saw the voters approve Retirement System membership for all members of the Board of Supervisors by the passage of Proposition D. The ten members of the Board of Supervisors who were not already members of the San Francisco Employees' Retirement System were enrolled prior to the July 1<sup>st</sup> effective date.



The Retirement Board held its annual election of officers on March 21<sup>st</sup> and Mr. Herb Meiberger was elected President and Ms. Brenda Wright was elected Vice-President. In June the Board declared a vacancy effective February 2001 due to the completion of the current term of Joe Driscoll, the longest serving member of the Retirement Board.

The Board approved annual basic and supplemental cost of living adjustments, the annual actuarial contract with Towers Perrin as outside consulting actuary, additional firms authorized for employment as outside counsel, and reviewed the disability retirement determination process.

### *Deferred Compensation Plan*

The Retirement Board carefully monitored the Deferred Compensation plan as it entered the second year of administration by AETNA. To facilitate the review of investment vehicle performance, the Board approved a Request for Proposal process to evaluate Performance Measurement Consultants. In March the Board selected KPMG to perform Investment Performance Assessment of the Deferred Compensation Plan. On June 13, 2000 President Meiberger appointed an AdHoc committee to recommend modifications to the core investment options provided by the 457 plan. Also the Board approved enhancements to the self-directed brokerage option.

### *Investments*

Throughout the fiscal year the Retirement Board reviewed the performance of the Trust Fund and the performance and adherence to guidelines by individual investment managers. In December of 1999 the Retirement Board selected Asset Strategy Consulting of Los Angeles, California to continue as general investment consultant for the Retirement System. The acquisition of Asset Strategy Consulting by Investorforce.com resulted in a new due diligence effort and in June the Board reaffirmed the general investment consulting assignment to Investorforce.com. The transition of the System's general consultant to an Internet based service provider has provided new opportunities, challenges and expanded resources to the Board and the investment staff.

Following is a summary of the investment oversight determinations made by the Retirement Board during 1999-2000, organized by major segments of the capital markets:

### **Equity**

The Retirement Board terminated one domestic equity manager and revised the mandate for another. These changes were the result of several years of monitoring and were consistent with the recently completed revision of the domestic equity portfolio. The Board received a report on the international equity portfolio structure and on currency management. The Retirement Board determined that a search for investment managers to enhance the international equity portfolio performance be conducted. The search is to be conducted utilizing the Investorforce.com database and search exchange features. The evaluation of the issue of currency management will be continued in the new fiscal year.

### **Fixed Income**

The 1999-2000 fiscal year saw the completion of two major searches for the fixed income portfolio. The Retirement Board ratified the staff and consultants' recommendations for new managers as listed below:

Global Core-Plus Managers  
Bridgewater  
Fisher, Francis, Trees and Watts





## Domestic Core-Plus Manager

### Western Asset Management.

These managers replaced three managers identified as underperformers in a review of the fixed income portfolio structure and performance.

## Real Estate

The Retirement Board committed \$70 million to two opportunistic real estate funds early in the fiscal year, Blackstone III and Apollo IV. These commitments are part of the real estate strategic plan to expand higher return real estate investments. In January the Board approved annual investment plans for INVESCO and RREEF, and later in the spring the Board approved AMB Property's annual plan. The annual plans define asset management assignments, allocate new funds and propose acquisitions and dispositions for the calendar year for separate account real estate managers.

## Alternative Investments

The Retirement Board approved delegation of authority to the staff to commit up to \$75 million to partnerships meeting certain criteria. The review of staff commitments and the Retirement Board's direct commitments resulted in participation by SFERS in the following new limited partnerships:

| <u>Partnership</u>                    | <u>Type</u>                   |
|---------------------------------------|-------------------------------|
| Knightsbridge Integrated Holdings III | Fund of funds                 |
| Welsh, Carson, Anderson & Stowe IX LP | Private Equity                |
| Weston Presidio Capital IV            | Venture Capital               |
| TA Advent IX                          | Venture Capital               |
| Horsley Bridge International Fund II  | International Fund of funds   |
| Horsley Bridge VII                    | Venture Capital Fund of Funds |
| Battery Ventures VI                   | Venture Capital               |
| BC European Capital VII               | International Private Equity  |
| Thomas H Lee Equity Fund              | Private Equity                |
| Morganthaler Partners                 | Venture Capital               |
| Technology Partners VI                | Venture Capital               |
| Thomas Weisel Capital Partners LP     | Private Equity                |
| TPG Partners III                      | Private Equity                |
| Polaris Venture Partners III LP       | Venture Capital               |
| Worldview Technology Partners         | International Venture Capital |
| Advanced Technology Ventures VI       | Venture Capital               |
| OCM Opportunity Fund III              | Distressed Debt               |
| Asia Pacific Growth Fund III LP       | International Private Equity  |
| Knightsbridge Post Venture IV         | Fund of Funds                 |
| New Enterprise Associates IV LP       | Venture Capital               |
| Duke Street Capital IV LP             | International Private Equity  |
| Vestar Capital Partners IV            | Private Equity                |
| Yorktown Energy Partners IV           | Energy                        |
| Gryphon Partners II LP                | Private Equity                |

These new investments reflect the largest commitment to alternative investments in a single fiscal year and continue the Retirement Board's strategy to diversify the portfolio and enhance the returns of the Trust.



## SFERS Administration

### *Administering mandated benefit programs and providing promised benefits*

The SFERS Retirement Board, subject to the provisions of the San Francisco City Charter, appoints an Executive Director to direct and manage the Retirement System's programs and operations.

SFERS Administration oversees the overall management of the Retirement System with the goal of providing the highest level of service to members and their beneficiaries. SFERS Administration implements the policies and directives of the Retirement Board.

SFERS Administration performs a wide range of services for the Retirement Board including:

- Preparation and distribution of calendars and minutes of all Retirement Board meetings;
- Assistance to the Retirement Board in the conduct of its meetings;
- Preparation of a variety of reports and correspondence pertaining to Retirement Board activities; and
- Recommendations and proposals to the Retirement Board on matters that affect the administration and management of the Retirement System.

### San Francisco Deferred Compensation Plan

SFERS Administration oversees and monitors the City's Deferred Compensation Plan through a third-party plan administrator, currently Aetna Financial Services, and administers the hardship withdrawal application process for this plan. The Deferred Compensation (457) Plan, adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from City service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

During the past year, the City's Deferred Compensation Plan has growth in both assets and participants. The Plan offers a diversified selection of 21 investment core products and access to self-directed brokerage window. Participants are able to access their individual accounts to reallocate their investments via the Internet. Plan participants are also served by Aetna Financial Services staff locally and through telephone customer call centers.

This year, the Retirement Board authorized a contract with KPMG Investment Consulting Group to perform an investment performance assessment of the Deferred Compensation Plan to ensure: 1) that the investment options being offered to Plan participants were performing well; 2) that the investment options offer different return/risk characteristics; and 3) the fee structure for each investment fund is within the standard range of similar type funds. The first performance assessment was based on Plan assets as of March 31, 2000. KPMG submitted a written and oral report to the Retirement Board in June 2000. The findings of this performance assessment were: 1) in general, all of the investment funds in the Plan are performing well; 2) the investment funds offered are acceptable options for the Plan; and 3) the fees for each fund are appropriate and fall within the average expense ratio of similar variable annuity funds and mutual funds.

As a result of this initial performance assessment, the Retirement Board formed an Ad Hoc Committee on Investment Options to review existing funds and recommend enhancements to the existing core investment products of the Deferred Compensation Plan.



## **Disability Application Processing**

SFERS Administration administers and monitors the hearing officer process for SFERS disability retirement applications. Hearing officers, under contract with the Retirement System, take testimony and make determinations on all SFERS disability retirement applications, disability leave and death benefits. The hearing officers are selected and assigned through either the California State Office of Administrative Hearings or the American Arbitration Association.

## **Actuarial Services**

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System.

The following pages provide detailed statistical information related to the City's Deferred Compensation Plan (Information for the period July 1, 1998 through February 1, 1999 is from the previous Plan Administrator - Hartford Life and information for the period February 2, 1999 through June 30, 2000 is from Aetna Financial Services) and SFERS Disability Application Processing for Fiscal Year 1999-2000.



**CITY & COUNTY OF SAN FRANCISCO 457 PLAN**  
**DEFERRED COMPENSATION: THREE YEAR COMPARISON**

|                                    | FY 1999-00             |               | FY 1998-99           |          | FY 1997-98 |
|------------------------------------|------------------------|---------------|----------------------|----------|------------|
|                                    | ACTUAL                 | % CHANGE      | ACTUAL               | % CHANGE | ACTUAL     |
| <b>AETNA FINANCIAL SERVICES</b>    | 7/1/99 - 6/30/00       |               | 2/2/99 - 6/30/99     |          |            |
| Fixed Account                      | \$206,801,920          | 6.14%         | \$194,844,521        |          |            |
| Ariel Growth                       | 1,709,261              | 74.34%        | 980,441              |          |            |
| Janus Twenty                       | 204,313,721            | 48.43%        | 137,653,462          |          |            |
| Janus Aspen Series Flexible Income | 2,522,104              | -12.28%       | 2,875,228            |          |            |
| Janus Aspen Series Worldwide       | 77,917,830             | 175.31%       | 28,301,547           |          |            |
| Janus Aspen Series Balanced        | 35,788,982             | 35.34%        | 26,444,687           |          |            |
| Aetna Money Market                 | 16,302,170             | 109.17%       | 7,793,572            |          |            |
| Aetna Bond                         | 8,770,816              | -12.16%       | 9,985,453            |          |            |
| Aetna Balanced VP                  | 81,041,442             | -4.91%        | 85,224,233           |          |            |
| Aetna Index Plus Large Cap VP      | 51,048,312             | 6.63%         | 47,873,217           |          |            |
| Aetna Growth VP                    | 16,781,286             | 76.16%        | 9,526,111            |          |            |
| Aetna International VP             | 6,292,413              | 151.40%       | 2,502,963            |          |            |
| AIM VI Capital Appreciation        | 116,821,001            | 41.89%        | 82,331,888           |          |            |
| AIM VI Growth                      | 18,565,673             | 58.47%        | 11,715,521           |          |            |
| Fidelity VIP Equity Income         | 10,047,562             | -29.70%       | 14,292,730           |          |            |
| PPI Scudder International Growth   | 18,790,725             | 60.41%        | 11,714,139           |          |            |
| PPI MFS Research Growth            | 1,028,614              | 133.22%       | 441,047              |          |            |
| PPI T Rowe Price Growth Equity     | 107,067,720            | 1.58%         | 105,400,683          |          |            |
| Calvert Social Balance             | 7,942,331              | 5.23%         | 7,547,777            |          |            |
| Lazard Small Cap                   | 1,323,213              | -28.38%       | 1,847,499            |          |            |
| Aetna Ultimate - Brokerage Acct    | 10,998,397             | 568.71%       | 1,644,718            |          |            |
| <b>FISCAL YEAR TOTALS:</b>         | <b>\$1,001,875,493</b> | <b>26.67%</b> | <b>\$790,941,437</b> |          |            |

|                                           | 7/1/98 - 2/1/99      |               | 7/1/97 - 6/30/98     |  |
|-------------------------------------------|----------------------|---------------|----------------------|--|
|                                           |                      |               |                      |  |
| <b>HARTFORD LIFE &amp; ANNUITY</b>        |                      |               |                      |  |
| General (Savings)                         | \$204,237,726        | 8.50%         | \$188,235,969        |  |
| Stock HLS Fund, Inc.                      | 95,067,488           | 4.13%         | 91,301,047           |  |
| Bond HLS Fund, Inc.                       | 8,753,135            | 26.07%        | 6,943,245            |  |
| Advisor HLS Fund, Inc.                    | 99,751,121           | 7.56%         | 92,741,451           |  |
| Money Market HLS Fund, Inc.               | 7,532,570            | 41.29%        | 5,331,250            |  |
| Capital Appreciation HLS Fund, Inc.       | 63,593,194           | -7.45%        | 68,715,336           |  |
| Mortgage Securities HLS Fund, Inc.        | 3,302,532            | 23.02%        | 2,684,496            |  |
| Index HLS Fund, Inc.                      | 29,643,747           | 22.50%        | 24,199,749           |  |
| Calvert Social Balanced                   | 7,588,688            | 8.19%         | 7,014,117            |  |
| International Opp HLS Fund, Inc.          | 12,345,234           | -7.32%        | 13,319,792           |  |
| AMS/American Century: 20th Century Ultra  | 43,786,133           | 8.39%         | 40,397,080           |  |
| AMS/American Century: 20th Century Select | 5,450,045            | 6.43%         | 5,120,716            |  |
| AMS/American Century: Balanced Fund       | 1,762,425            | -6.62%        | 1,887,308            |  |
| AMS/FA Growth                             | 34,711,632           | -2.19%        | 35,487,559           |  |
| AMS/FA Advisor Balanced Fund              | 5,161,032            | 87.44%        | 2,753,468            |  |
| AMS/FA STR. OPP                           | 918,560              | -32.68%       | 1,364,565            |  |
| AMS/FA Overseas                           | 2,237,750            | -21.46%       | 2,849,040            |  |
| Dividend & Growth HLS Fund, Inc.          | 9,354,954            | -27.39%       | 12,883,962           |  |
| Scudder Growth & Income                   | 2,725,251            | -3.60%        | 2,827,034            |  |
| Janus Twenty                              | 59,990,389           | 557.52%       | 9,123,707            |  |
| Janus Worldwide                           | 15,915,245           | 52.47%        | 10,438,404           |  |
| Putnam Vista                              | 844,511              | 19.87%        | 704,525              |  |
| Putnam High Yield Advantage               | 1,387,653            | -22.09%       | 1,781,138            |  |
| Putnam International New Opportunities    | 492,766              | 20.00%        | 410,625              |  |
| American Century Income & Growth          | 9,069,117            | 23.24%        | 7,358,660            |  |
| American Century Value                    | 947,687              | -30.65%       | 1,366,595            |  |
| Skyline Small Cap Value Plus              | 1,133,847            | -30.19%       | 1,624,286            |  |
| Fidelity Advisor Growth & Income          | 2,019,805            | 153.65%       | 796,307              |  |
| <b>FISCAL YEAR TOTALS:</b>                | <b>\$729,724,237</b> | <b>14.08%</b> | <b>\$639,661,431</b> |  |

|                               |               |         |              |         |              |
|-------------------------------|---------------|---------|--------------|---------|--------------|
| Number of Active Participants | 19,008        | 11.02%  | 17,122       | 7.37%   | 15,947       |
| Retirees Receiving Benefits   | 2,117         | 139.48% | 884          | -5.25%  | 933          |
| Retiree Assets                | \$190,990,605 | 100.84% | \$95,094,435 | 123.25% | \$42,594,949 |





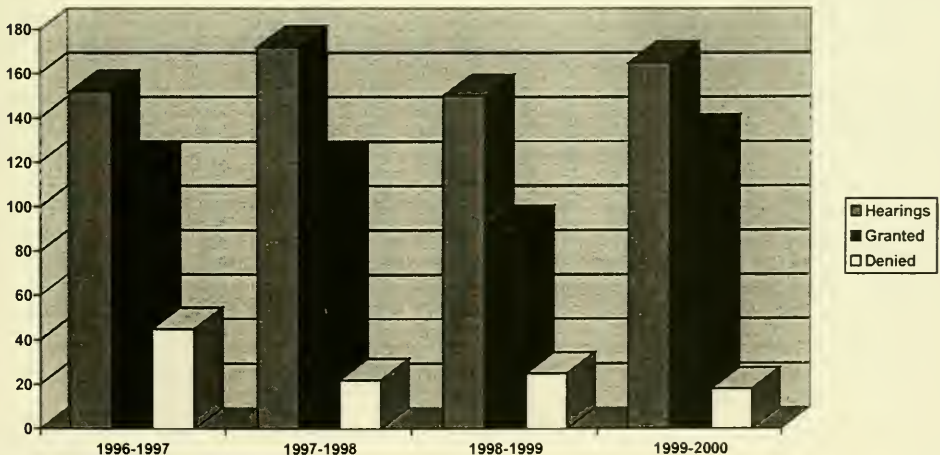
# Hearing Officer Report

## Fiscal Year Ended June 30, 2000

| CASES                                | TOTAL<br>NO. OF<br>HEARINGS | TOTAL<br>NO.<br>GRANTED | TOTAL<br>NO.<br>DENIED |
|--------------------------------------|-----------------------------|-------------------------|------------------------|
| Industrial Disability Retirements    | 83                          | 53                      | 9                      |
| Ordinary Disability Retirements      | 83                          | 65                      | 3                      |
| Industrial Disability Determinations | 2                           |                         |                        |
| Death Benefits                       | 5                           | 6                       |                        |
| Petitions for Rehearing              | 8                           | 3                       | 5                      |
| PERS                                 | 10                          | 6                       | 1                      |
| Reinstatements                       | 1                           | 0                       | 0                      |
| <b>TOTAL</b>                         | <b>165*</b>                 | <b>132</b>              | <b>18</b>              |

*\* The number of hearings does not equal number of decisions because many decisions are held over from the previous year due to the time required in the preparation of cases for disability hearings and are not reported.*

## Hearing Officer Report Four-Year Comparison





## Investment Division

### *Dedicated to securing, protecting and prudently investing the pension trust assets*

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the seventy years since its inception. The Retirement System's goal, however, has essentially remained the same: **to maximize long-term rates of return on investments within prudent guidelines.**

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2000, approximately 18% of the SFERS trust assets were managed internally, including \$900 million in domestic bonds and \$1.4 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including global fixed income, international equities, real estate and alternative investments.

### **Investment Highlights for Fiscal Year Ended June 30, 2000**

During the fiscal year ended June 30, 2000, soaring optimism about new technology resulted in substantially higher asset values for global public and private equity. As a result of the strength in these sectors, the market value of the SFERS investment portfolio reached \$12.9 billion as of June 30, 2000. The \$12.9 billion represented a gain of \$2 billion over the same period last year. This dollar gain represented a return of 23.0% on the SFERS trust for the fiscal year ended June 30, 2000, well above the 8.25% assumed rate of return necessary to meet the long-term funding requirements. This strong rate of return was led by robust gains (over 110%) in the alternative investment portfolio. Rising U.S. interest rates held domestic fixed income returns to 4.8%.

Overseas, economic strength in most developed countries led to rising earnings and interest rates. The rising earnings trend resulted in international equity returns of 39.7%. Rising interest rates, however, held global fixed income gains to 0.5% over the previous fiscal year.

Reviews of three major asset sectors (domestic fixed income, global fixed income and core international equities) were completed during Fiscal Year 1999-2000. These reviews resulted in an increase in core domestic fixed income investments and a shift to two new global bonds managers. In addition, as part of the ongoing strategic plan, new investments in venture capital, special asset funds and real estate properties were implemented.

The following pages contain charts illustrating:

**Asset Allocation as of June 30, 2000**

**SFERS Trust Fund Assets**

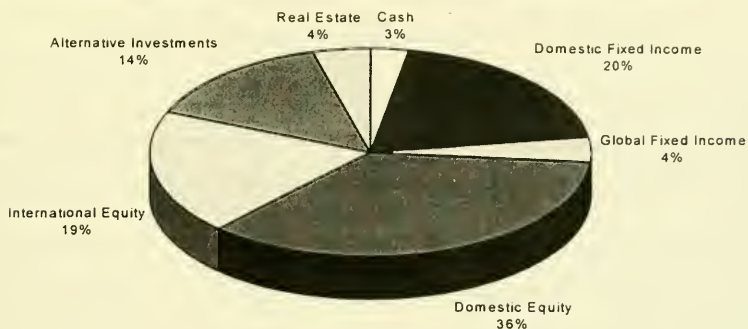
**Investment Portfolio Performance**

**Investment Earnings & Assets**

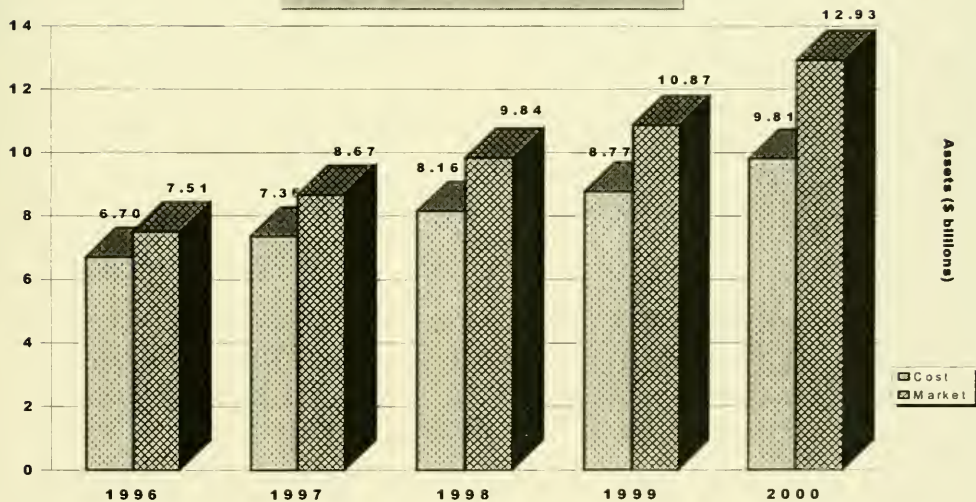
**Portfolio Investment as of June 30, 2000**



## Asset Allocation as of June 30, 2000 - Market Value



## SFERS Trust Fund Assets





## Investment Portfolio Performance

### Annualized Returns for Periods Ending 6/30/00

|                         | One<br>Year   | Two<br>Years  | Three<br>Years | Four<br>Years | Five<br>Years |
|-------------------------|---------------|---------------|----------------|---------------|---------------|
| Domestic Equities       | 11.59%        | 15.05%        | 18.89%         | 21.76%        | 22.59%        |
| International Equities  | 40.22%        | 27.86%        | 19.19%         | 18.54%        | 19.77%        |
| Domestic Fixed Income   | 4.87%         | 4.08%         | 6.44%          | 7.37%         | 7.05%         |
| Global Fixed Income     | 7.39%         | 2.88%         | 3.23%          | 4.63%         | 4.75%         |
| Real Estate             | 10.43%        | 9.28%         | 15.68%         | 13.15%        | 12.87%        |
| Alternative Investments | 110.74%       | 58.07%        | 47.35%         | 43.88%        | 40.17%        |
| <b>TOTAL FUND</b>       | <b>23.17%</b> | <b>17.65%</b> | <b>17.22%</b>  | <b>17.47%</b> | <b>16.95%</b> |

**SOURCE:**

*The Northern Trust Company*





# INVESTMENT EARNINGS & ASSETS - FIVE YEAR HISTORY

| FISCAL YEAR ENDED JUNE 30 | INTEREST INCOME | EQUITY DIVIDEND INCOME | REAL ESTATE INCOME | ALTERNATIVE INV. INCOME | TOTAL REALIZED GAINS/(LOSS) | UNREALIZED GAINS/(LOSS) CHANGE | TOTAL EARNINGS   |
|---------------------------|-----------------|------------------------|--------------------|-------------------------|-----------------------------|--------------------------------|------------------|
| 2000                      | \$ 242,334,407  | \$ 81,606,794          | \$ 29,374,957      | \$ 27,397,257           | \$ 901,411,122              | \$ 1,052,062,749               | \$ 2,335,087,286 |
| 1999                      | \$ 215,707,426  | \$ 75,210,418          | \$ 34,988,747      | \$ 14,299,822           | \$ 498,845,984              | \$ 439,394,832                 | \$ 1,278,447,229 |
| 1998                      | \$ 211,223,401  | \$ 74,920,497          | \$ 30,207,714      | \$ 1,382,749            | \$ 755,361,367              | \$ 328,769,928                 | \$ 1,401,865,656 |
| 1997                      | \$ 263,168,871  | \$ 57,357,584          | \$ 32,918,050      | \$ 5,772,781            | \$ 474,990,608              | \$ 490,420,684                 | \$ 1,324,628,578 |
| 1996                      | \$ 262,631,734  | \$ 50,188,753          | \$ 38,094,714      | \$ 42,702,461           | \$ 485,460,859              | \$ 107,985,000                 | \$ 987,063,521   |
| 1995                      | \$ 263,013,621  | \$ 48,117,647          | \$ 29,525,131      | \$ 14,626,943           | \$ 136,431,943              | \$ 382,820,407                 | \$ 864,434,692   |

| FISCAL YEAR ENDED JUNE 30 | FIXED INCOME FAIR VALUE | EQUITY FAIR VALUE | REAL ESTATE FAIR VALUE | ALTERNATIVE FAIR VALUE | INVESTMENT IN MONEY MARKET | TOTAL FAIR VALUE OF PORTFOLIO | TOTAL BOOK VALUE OF PORTFOLIO |
|---------------------------|-------------------------|-------------------|------------------------|------------------------|----------------------------|-------------------------------|-------------------------------|
| 2000                      | \$ 3,058,839,025        | \$ 7,111,864,028  | \$ 551,299,038         | \$ 1,862,466,346       | \$ 345,981,126             | \$ 12,930,449,563             | \$ 9,761,606,113              |
| 1999                      | \$ 3,009,558,463        | \$ 6,111,979,234  | \$ 513,737,188         | \$ 928,601,465         | \$ 304,649,273             | \$ 10,868,525,623             | \$ 8,768,859,590              |
| 1998                      | \$ 2,794,890,343        | \$ 5,117,032,878  | \$ 493,836,137         | \$ 616,429,401         | \$ 815,889,634             | \$ 9,838,078,393              | \$ 8,163,679,026              |
| 1997                      | \$ 2,890,146,027        | \$ 4,137,637,309  | \$ 577,308,687         | \$ 451,995,788         | \$ 603,122,930             | \$ 8,660,212,738              | \$ 7,316,184,016              |
| 1996                      | \$ 2,657,673,000        | \$ 3,039,389,000  | \$ 544,212,000         | \$ 331,335,000         | \$ 993,967,808             | \$ 7,560,971,000              | \$ 6,741,312,000              |
| 1995                      | \$ 2,999,025,000        | \$ 2,472,601,000  | \$ 487,806,245         | \$ 218,392,000         | \$ 501,007,755             | \$ 6,678,832,000              | \$ 5,964,159,230              |



## Portfolio Investment as of June 30, 2000

| Category                         | Cost                    | % of Total     | Market                   | % of Total     |
|----------------------------------|-------------------------|----------------|--------------------------|----------------|
| Cash & Cash Equivalents          | \$ 337,023,020          | 3.44%          | \$ 345,981,126           | 2.68%          |
| <b>EQUITIES</b>                  |                         |                |                          |                |
| Basic industries                 | 102,699,402             | 1.05%          | 107,652,641              | 0.83%          |
| Capital goods industries         | 112,430,945             | 1.15%          | 216,477,843              | 1.67%          |
| Consumer durables                | 131,619,025             | 1.34%          | 154,512,037              | 1.20%          |
| Consumer non-durables & services | 700,364,487             | 7.14%          | 1,097,603,049            | 8.49%          |
| Energy                           | 114,767,891             | 1.17%          | 162,221,812              | 1.25%          |
| Financial services               | 387,021,344             | 3.95%          | 511,784,043              | 3.96%          |
| Miscellaneous                    | 288,324,614             | 2.94%          | 371,953,766              | 2.88%          |
| Mortgages                        | 161,655                 | 0.00%          | 165,938                  | 0.00%          |
| Technology                       | 596,657,107             | 6.08%          | 1,275,422,100            | 9.86%          |
| Utilities                        | 543,266,160             | 5.54%          | 706,966,234              | 5.47%          |
| Foreign stock                    | 1,744,063,395           | 17.78%         | 2,507,104,565            | 19.39%         |
| <b>Equities Total</b>            | <b>4,721,376,025</b>    | <b>48.14%</b>  | <b>7,111,864,028</b>     | <b>55.00%</b>  |
| <b>FIXED INCOME</b>              |                         |                |                          |                |
| Basic industries                 | 422,954,369             | 4.31%          | 352,229,801              | 2.72%          |
| Capital goods industries         | 49,142,789              | 0.50%          | 46,077,935               | 0.36%          |
| Consumer durables                | 29,721,830              | 0.30%          | 27,476,353               | 0.21%          |
| Consumer non-durables & services | 235,338,897             | 2.40%          | 219,476,985              | 1.70%          |
| Energy                           | 16,613,689              | 0.17%          | 15,931,360               | 0.12%          |
| Financial services               | 443,096,805             | 4.52%          | 415,917,036              | 3.22%          |
| Miscellaneous                    | 72,427,511              | 0.74%          | 84,791,045               | 0.66%          |
| Mortgages                        | 100,803,057             | 1.03%          | 97,835,971               | 0.76%          |
| Technology                       | 49,076,618              | 0.50%          | 46,221,900               | 0.36%          |
| US Government                    | 1,139,950,365           | 11.62%         | 1,163,651,232            | 9.00%          |
| Utilities                        | 108,823,339             | 1.11%          | 106,688,957              | 0.82%          |
| Foreign government & corporate   | 512,659,075             | 5.23%          | 482,540,450              | 3.73%          |
| <b>Fixed Income Total</b>        | <b>3,180,608,344</b>    | <b>32.43%</b>  | <b>3,058,839,025</b>     | <b>23.66%</b>  |
| <b>OTHER INVESTMENTS</b>         |                         |                |                          |                |
| Real Estate                      | 501,824,577             | 5.12%          | 551,299,038              | 4.26%          |
| Venture Capital & Partnerships   | 1,066,483,208           | 10.87%         | 1,862,466,346            | 14.40%         |
| <b>Other Investments Total</b>   | <b>1,568,307,785</b>    | <b>15.99%</b>  | <b>2,413,765,384</b>     | <b>18.66%</b>  |
| <b>TOTAL PORTFOLIO</b>           | <b>\$ 9,807,315,174</b> | <b>100.00%</b> | <b>\$ 12,930,449,563</b> | <b>100.00%</b> |



## Retirement Services Division

### *Administering mandated benefit programs and providing promised benefits*

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement counseling.

### **SFERS Plan Membership**

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of two tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current New Plan Firefighter benefits are established by Charter amendment passed in November 1996; current New Plan Police benefits are established by Charter amendment passed in November 1998; and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000. Miscellaneous Plan members have been covered under the Social Security System since September 1959 (City Charter §8.514).

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, as well as the City and County of San Francisco. Plan membership is in effect as long as member contributions remain on deposit with SFERS.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems.

In 1968, deputized personnel of the Sheriff's Department were authorized to transfer to the State of California Public Employees' Retirement System (CALPERS). Airport Police and Institutional Police personnel were authorized to transfer to CALPERS in 1984 and 1985, respectively. District Attorney Investigators similarly were authorized to transfer to CALPERS in 1986.

In 1972, school teachers were authorized to transfer to the State Teachers Retirement System (STRS).

On September 1, 1990, employees who were Adult and Juvenile Probation Officers on that date became CALPERS members for all prospective service rendered in qualified job classes. Past service credit was transferred for most members in September 1996.

On September 1, 1995, Retirement System membership rules were changed: employees who had earned not less than 1040 hours of compensation during any 12-month period became eligible for retirement membership on the first day of the pay period following the payperiod in which the member earns 1040 hours of compensation.

On December 27, 1997, 130 Airport Police Officers became members of the SFERS under Charter §8.586 (Police New Plan.)



On February 21, 1998, 158 miscellaneous members in Paramedic job classes who were members of SFERS under Charter §§8.509 and 8.584, became members of SFERS under City Charter §8.588 (Fire New Plan).

Other Charter References:

| <b>CHARTER<br/>SECTION</b> | <b>EMPLOYEE GROUP</b>                                                                                                    |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------|
| 8.508-1                    | Teachers - STRS                                                                                                          |
| 8.505                      | Port Employees – CALPERS                                                                                                 |
| 8.506                      | Sheriff's Employees – CALPERS                                                                                            |
| 8.506-2                    | Airport Police Officers, Institutional Police Officers, District Attorney<br>Investigators, Probation Officers – CALPERS |
| 8.506-3                    | Housing Authority Police – CALPERS                                                                                       |
| 8.586                      | Airport Police Officers – SFERS members                                                                                  |
| 8.588                      | Paramedics                                                                                                               |





## SFERS Active Membership

As of June 30, 2000, there were 25,998 members of the Miscellaneous Plan, 1,741 members of the Firefighter Plan and 2,188 members of the Police Plan. Active SFERS membership increased by 3.9% over the prior year.

### Active Membership as of June 30, 2000 (Three year comparison)

| CHARTER SECTION | EMPLOYEE TYPE                                      | NUMBER OF ACTIVE MEMBERS |               |               |
|-----------------|----------------------------------------------------|--------------------------|---------------|---------------|
|                 |                                                    | 6/30/00                  | 6/30/99       | 6/30/98       |
| 8.509           | Miscellaneous members before November 2, 1976      | 2,277                    | 2,516         | 2,782         |
| 8.584           | Miscellaneous members on or after November 2, 1976 | 23,721                   | 22,419        | 21,088        |
| 8.559           | Police members before November 2, 1976             | 322                      | 363           | 396           |
| 8.586           | Police members on or after November 2, 1976        | 1,866                    | 1,782         | 1,716         |
| 8.585           | Firefighter members before November 2, 1976        | 384                      | 418           | 460           |
| 8.588           | Firefighter members on or after November 2, 1976   | 1,357                    | 1,314         | 1,170         |
| <b>TOTALS:</b>  |                                                    | <b>29,927</b>            | <b>28,812</b> | <b>27,612</b> |

Miscellaneous members comprise approximately 86.9% of the total membership. Approximately 8.8% of the total miscellaneous members are employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 7.3% and 5.8% of the total membership, respectively.

Miscellaneous Plan members are members of the Social Security System (City Charter § 8.514). Social Security coverage was first made available to City and County employees in September 1959. Members covered under Social Security may elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members will have account shortages and will have reduced pensions on retirement if the shortages are not paid prior to retirement.



**Employer (City and County) Contribution Rates**  
As a Percentage of Covered Payroll

| COVERED PERIOD                   | POLICE | FIREFIGHTER | MISCELLANEOUS |
|----------------------------------|--------|-------------|---------------|
| 1995-1996 (1st half)             | 14.79% | 12.44%      | 4.98%         |
| 1995-1996 (2nd half)             | 12.69% | 10.58%      | 4.29%         |
| 1996-1997 (1 <sup>st</sup> half) | 0%     | 0%          | 1.83%         |
| 1996-1997 (2 <sup>nd</sup> half) | 0%     | 0%          | 0%            |
| 1997-1998                        | 0%     | 0%          | 0%            |
| 1998-1999                        | 0%     | 0%          | 0%            |
| 1999-2000                        | 0%     | 0%          | 0%            |

Note: Rates of contribution are composite rates for Old and New groups.

**Employee Contribution Rates**  
As a Percentage of Covered Payroll

| GROUP                | RATE OF CONTRIBUTION |
|----------------------|----------------------|
| Miscellaneous (Old)* | 8.00%                |
| Miscellaneous (New)  | 7.50%                |
| Police (Old)         | 7.00%                |
| Police (New)         | 7.50%                |
| Firefighter (Old)    | 7.00%                |
| Firefighter (New)    | 7.50%                |

\*Contributions for Old Plan Miscellaneous Employees (Charter Section 8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.



## SFERS Retirement Services

The following table summarizes some of the major activities of the SFERS Retirement Services Division during fiscal year 1999 - 00:

| ACTIVITY                                               | TOTAL  |
|--------------------------------------------------------|--------|
| Retirement Appointments                                | 1510   |
| Retirement Applications Processed                      | 769    |
| Personnel Transactions:                                | 4246   |
| New Members                                            | 1689   |
| New Members (1040 hours membership ordinance)          | 899    |
| Rehires                                                | 186    |
| Promotions / Transfers                                 | 1472   |
| Fire Recruits                                          | 70     |
| Police Recruits                                        | 204    |
| Sheriff Recruits                                       | 48     |
| Visitors                                               | 15,932 |
| Mail (letters)                                         | 19,251 |
| Home Visits                                            | 10     |
| Group Presentations                                    | 26     |
| Beneficiary Changes                                    | 1320   |
| Refund Packets                                         | 654    |
| Verification of Pension or Benefit Data                | 432    |
| Electronic Fund Transfer (new and changes)             | 1759   |
| Other activities (address changes, name changes, etc.) | 1857   |

Retirement appointments increased 15.9% in fiscal year 1999-2000 over the prior fiscal year, from 1,303 in 1998-1999 to 1,510 in 1999-2000. Retirement applications processed increased 15.1%, from 668 in 1998-1999 to 769 in 1999-2000.

Personnel transactions processed increased 5.7% in fiscal year 1999-2000. Promotions and transfers accounted for 34.7% of all personnel transactions processed in fiscal year 1999-2000.

SFERS Retirement Services Division staff made twenty-six group presentations for membership enrollment. Generally, new members in job classes such as fire and police recruits, transit operators, eligibility workers and sheriff recruits are counseled at their work location.



## SFERS Retirement Statistics for Fiscal Year Ended June 30, 2000

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during the 1999-2000 fiscal years, as well as benefits payment summaries and comparisons:

### New Retirements Processed for Fiscal Year 1999-2000

| MEMBER GROUP   | SERVICE      | VESTING    | INDUSTRIAL DISABILITY | ORDINARY DISABILITY | TOTAL      |
|----------------|--------------|------------|-----------------------|---------------------|------------|
| Miscellaneous  | 427          | 127        | 0                     | 29                  | 583        |
| Fire           | 27           | 0          | 15                    | 0                   | 42         |
| Police         | 46           | 1          | 10                    | 0                   | 57         |
| <b>TOTALS:</b> | <b>* 500</b> | <b>128</b> | <b>25</b>             | <b>29</b>           | <b>682</b> |

\*Total service retirements in the fiscal year 1999-2000 includes applications for industrial or ordinary disability which have qualified for service retirement but are pending decision for disability application.

The total number of new retirements processed in Fiscal Year 1999-2000 was 5.4% higher than retirements processed Fiscal Year 1998-1999. Service retirements represent 73.3% of the total of new retirements processed.

Miscellaneous retirements represented 85.5% of the total retirements processed in Fiscal Year 1999-2000, a decrease from 88.1% in Fiscal Year 1998-1999.

Firefighter retirements represented 6.2% of the total retirements processed in Fiscal Year 1999-2000, a decrease from 6.6% in Fiscal Year 1998-1999.

Police retirements represented 8.4% of the total retirements processed in Fiscal Year 1999-2000, an increase from 5.3% in Fiscal Year 1998-1999.





## Miscellaneous Plan Members

### SERVICE CREDIT AT RETIREMENT

| YEARS OF SERVICE | SERVICE RETIREMENTS | VESTING RETIREMENTS | ORDINARY DISABILITY | TOTAL         | PERCENT OF TOTAL |
|------------------|---------------------|---------------------|---------------------|---------------|------------------|
| 0-5              | 9                   | 18                  | 0                   | 27            | 4.6%             |
| 6-10             | 13                  | 55                  | 6                   | 72            | 12.3%            |
| 11-15            | 82                  | 35                  | 13                  | 130           | 22.3%            |
| 16-20            | 71                  | 18                  | 6                   | 95            | 16.3%            |
| 21-25            | 91                  | 1                   | 2                   | 94            | 16.1%            |
| 26-30            | 71                  | 0                   | 2                   | 83            | 15.4%            |
| 31-35            | 54                  | 0                   | 2                   | 56            | 9.6%             |
| 36-40            | 23                  | 0                   | 6                   | 23            | 3.9%             |
| Over 40          | 3                   | 0                   | 0                   | 3             | 0.5%             |
| <b>TOTAL</b>     | <b>427</b>          | <b>127</b>          | <b>29</b>           | <b>583</b>    | <b>100.0%</b>    |
| <b>PERCENT</b>   | <b>73.2%</b>        | <b>21.8%</b>        | <b>5.0%</b>         | <b>100.0%</b> |                  |

Approximately 72% of the total Miscellaneous Plan retirements had less than 26 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Fiscal Year 1999-2000 was eighteen years.

Miscellaneous Plan service retirees were credited with an average of 22 years of service while those who retired for ordinary disability were credited with an average of 16 years of service.

### AGE AT RETIREMENT

| AGE          | SERVICE    | VESTING    | ORDINARY DISABILITY | TOTAL      | PERCENT OF TOTAL |
|--------------|------------|------------|---------------------|------------|------------------|
| Under 55     | 36         | 76         | 24                  | 136        | 23.3%            |
| 55-60        | 131        | 28         | 5                   | 164        | 28.1%            |
| 61-65        | 189        | 14         | 0                   | 203        | 34.8%            |
| Over 65      | 71         | 9          | 0                   | 80         | 13.8%            |
| <b>TOTAL</b> | <b>427</b> | <b>141</b> | <b>29</b>           | <b>583</b> | <b>100.0%</b>    |

The average age of all Miscellaneous Plan members who retired in Fiscal Year 1999-2000 was 59 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 52 years.



## Police and Firefighter Plan Members

### SERVICE CREDIT AT RETIREMENT

| YEARS OF SERVICE | SERVICE RETIREMENTS | VESTING RETIREMENTS | INDUSTRIAL DISABILITY* | TOTAL       | PERCENT OF TOTAL |
|------------------|---------------------|---------------------|------------------------|-------------|------------------|
| 0-5              | 3                   | 0                   | 2                      | 5           | 4.6%             |
| 6-10             | 0                   | 0                   | 0                      | 1           | 12.3%            |
| 11-15            | 1                   | 0                   | 0                      | 1           | 22.3%            |
| 16-20            | 0                   | 0                   | 2                      | 3           | 16.3%            |
| 21-25            | 5                   | 0                   | 2                      | 7           | 16.1%            |
| 26-30            | 45                  | 0                   | 14                     | 59          | 15.4%            |
| 31-35            | 18                  | 0                   | 2                      | 20          | 9.6%             |
| 36-40            | 1                   | 0                   | 0                      | 1           | 3.9%             |
| Over 40          | 0                   | 0                   | 0                      | 0           | 0.5%             |
| <b>TOTAL</b>     | <b>73</b>           | <b>1</b>            | <b>25</b>              | <b>99</b>   | <b>100%</b>      |
| <b>PERCENT</b>   | <b>73.7%</b>        | <b>1.0%</b>         | <b>5.3%</b>            | <b>100%</b> |                  |

\* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Fiscal Year 1999-2000

Approximately 20% of the total Police and Firefighter Plan retirements had less than 26 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Fiscal Year 1999-2000 was twenty-eight years.

Police and Firefighter Plan service retirees were credited with an average of 28 years of service while those who retired for industrial disability were credited with an average of 29 years of service.

### AGE AT RETIREMENT

| AGE          | SERVICE   | VESTING  | INDUSTRIAL DISABILITY | TOTAL      | PERCENT OF TOTAL |
|--------------|-----------|----------|-----------------------|------------|------------------|
| Under 55     | 23        | 1        | 14                    | 38         | 23.3%            |
| 55-60        | 40        | 0        | 11                    | 51         | 28.1%            |
| 61-65        | 9         | 0        | 0                     | 9          | 34.8%            |
| Over 65      | 1         | 0        | 0                     | 1          | 13.8%            |
| <b>TOTAL</b> | <b>73</b> | <b>1</b> | <b>25</b>             | <b>122</b> | <b>100.0%</b>    |

The average age of all Police and Firefighter Plan members who retired in Fiscal Year 1999-2000 was 56 years.



# Total Retirement Allowances – 3 Year Comparison

## Retired Members and Survivor Continuation Benefits

| MEMBER<br>CATEGORY      | SERVICE<br>RETIREMENTS | DISABILITY<br>RETIREMENTS* | DEATH IN<br>LINE OF<br>DUTY | TOTAL         |
|-------------------------|------------------------|----------------------------|-----------------------------|---------------|
| <b>As of 6/30/2000:</b> |                        |                            |                             |               |
| <b>MISCELLANEOUS</b>    | <b>11,239</b>          | <b>1,675</b>               | <b>-</b>                    | <b>12,914</b> |
| Member                  | 9,306                  | 1,199                      | -                           | 10,505        |
| Continuation            | 1,933                  | 476                        | -                           | 2,409         |
| <b>FIREFIGHTER</b>      | <b>776</b>             | <b>827</b>                 | <b>53</b>                   | <b>1,656</b>  |
| Member                  | 537                    | 582                        | -                           | 1,119         |
| Continuation            | 239                    | 245                        | 53                          | 537           |
| <b>POLICE</b>           | <b>1,048</b>           | <b>760</b>                 | <b>53</b>                   | <b>1,861</b>  |
| Member                  | 796                    | 505                        | -                           | 1,301         |
| Continuation            | 252                    | 255                        | 53                          | 560           |
| <b>TOTAL</b>            | <b>13,063</b>          | <b>3,262</b>               | <b>106</b>                  | <b>16,431</b> |
| <b>As of 6/30/1999:</b> |                        |                            |                             |               |
| <b>MISCELLANEOUS</b>    | <b>11,274</b>          | <b>1,701</b>               | <b>-</b>                    | <b>12,975</b> |
| Member                  | 9,163                  | 1,170                      | -                           | 10,333        |
| Continuation            | 2,111                  | 531                        | -                           | 2,642         |
| <b>FIREFIGHTER</b>      | <b>805</b>             | <b>818</b>                 | <b>59</b>                   | <b>1,682</b>  |
| Member                  | 553                    | 567                        | -                           | 1,120         |
| Continuation            | 252                    | 251                        | 59                          | 562           |
| <b>POLICE</b>           | <b>1,035</b>           | <b>769</b>                 | <b>57</b>                   | <b>1,861</b>  |
| Member                  | 770                    | 516                        | -                           | 1,286         |
| Continuation            | 265                    | 253                        | 57                          | 575           |
| <b>TOTAL</b>            | <b>13,101</b>          | <b>3,282</b>               | <b>116</b>                  | <b>16,518</b> |
| <b>As of 6/30/1998:</b> |                        |                            |                             |               |
| <b>MISCELLANEOUS</b>    | <b>10,623</b>          | <b>1,696</b>               | <b>-</b>                    | <b>12,319</b> |
| Member                  | 8,604                  | 1,187                      | -                           | 9,791         |
| Continuation            | 2,019                  | 509                        | -                           | 2,528         |
| <b>FIREFIGHTER</b>      | <b>779</b>             | <b>815</b>                 | <b>57</b>                   | <b>1,651</b>  |
| Member                  | 530                    | 566                        | -                           | 1,096         |
| Continuation            | 249                    | 249                        | 57                          | 555           |
| <b>POLICE</b>           | <b>986</b>             | <b>782</b>                 | <b>59</b>                   | <b>1,827</b>  |
| Member                  | 739                    | 530                        | -                           | 1,269         |
| Continuation            | 247                    | 252                        | 59                          | 558           |
| <b>TOTAL</b>            | <b>12,388</b>          | <b>3,293</b>               | <b>116</b>                  | <b>15,797</b> |

\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)



As of June 30, 2000, the total number of retirement allowances was 16,431, a 0.5% decrease from the previous Fiscal Year.

Allowances paid to retired members represented 78.7% of the total allowances paid; continuation allowances represented 21.3% of the total allowances paid.

### Monthly Retirement Benefits Paid – 3 Year Comparison Retired Members and Survivor Continuation Benefits

| MEMBER<br>CATEGORY | SERVICE<br>RETIREMENTS | DISABILITY<br>RETIREMENTS* | DEATH IN<br>LINE OF<br>DUTY | TOTAL        |
|--------------------|------------------------|----------------------------|-----------------------------|--------------|
| As of 6/30/2000:   |                        |                            |                             |              |
| MISCELLANEOUS      | \$17,162,146           | \$2,050,079                | -                           | \$19,212,225 |
| FIREFIGHTER        | 2,524,446              | 2,714,965                  | \$121,887                   | 5,361,298    |
| POLICE             | 3,444,857              | 1,979,804                  | 143,661                     | 5,568,322    |
| TOTAL              | \$23,131,449           | \$6,744,848                | \$265,548                   | \$30,141,845 |
| As of 6/30/1999:   |                        |                            |                             |              |
| MISCELLANEOUS      | \$16,123,000           | \$1,843,331                | -                           | \$17,966,331 |
| FIREFIGHTER        | 2,435,779              | 2,367,244                  | \$117,480                   | 4,920,503    |
| POLICE             | 3,200,133              | 1,958,099                  | 138,177                     | 5,296,409    |
| TOTAL              | \$21,758,912           | \$6,168,674                | \$255,657                   | \$28,183,243 |
| As of 6/30/1998:   |                        |                            |                             |              |
| MISCELLANEOUS      | \$15,084,154           | \$1,670,830                | -                           | \$16,754,984 |
| FIREFIGHTER        | 2,303,060              | 2,276,055                  | \$122,845                   | 4,701,960    |
| POLICE             | 2,936,854              | 1,802,685                  | 136,428                     | 4,875,967    |
| TOTAL              | \$20,324,068           | \$5,749,570                | \$259,273                   | \$26,332,911 |

\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 63.7% of the total monthly retirement allowances paid during Fiscal Year 1999-2000.

Monthly retirement allowances paid to service retirees represented 76.7% of the total monthly retirement allowances and monthly disability benefits represented 22.4% of the total monthly retirement allowances paid during Fiscal Year 1999-2000.





## Death Benefits Paid – 3 Year Comparison

|                                                                                                             | 1999-2000  | 1998-1999  | 1997-1998  |
|-------------------------------------------------------------------------------------------------------------|------------|------------|------------|
| <b>NUMBER OF DEATHS:</b>                                                                                    |            |            |            |
| Active Members                                                                                              | 72         | 53         | 55         |
| Retired Members                                                                                             | 507        | 519        | 545        |
| Continuants                                                                                                 | 189        | 203        | 189        |
| <b>TOTAL</b>                                                                                                | <b>768</b> | <b>775</b> | <b>789</b> |
| <b>DEATH BENEFITS PAID:</b>                                                                                 |            |            |            |
| <b>DUE TO ACTIVE MEMBER DEATHS</b>                                                                          |            |            |            |
| Refund of Contributions                                                                                     | 65         | 30         | 50         |
| Industrial Death Allowances                                                                                 | 2          | 0          | 0          |
| 6 Months Earnable Salary                                                                                    | 61         | 30         | 46         |
| <b>SUBTOTAL</b>                                                                                             | <b>128</b> | <b>60</b>  | <b>60</b>  |
| <b>DUE TO RETIRED MEMBER DEATHS</b>                                                                         |            |            |            |
| Continuation                                                                                                | 229        | 246        | 247        |
| Option 1 (Refund of Member Accumulated Contributions \$100/Year for Each Year of Service (Maximum \$3,000)) | 30         | 40         | 47         |
|                                                                                                             | 482        | 492        | 488        |
| <b>SUBTOTAL</b>                                                                                             | <b>741</b> | <b>778</b> | <b>782</b> |
| <b>TOTAL</b>                                                                                                | <b>869</b> | <b>838</b> | <b>878</b> |

The number of deaths during Fiscal Year 1999-2000 decreased by 0.9% from Fiscal Year 1998-1999.

There was a 110% increase in the number of benefits paid due to the death of active members in Fiscal year 1999-2000 from the previous fiscal year.

In Fiscal Year 1999-2000, the total number of death benefits payments processed due to the deaths of active and retired members increased 3.7% over the previous fiscal year.



## Withdrawal of Contributions – 3 Year Comparison

|                        | NUMBER     | PERCENT<br>VARIANCE<br>PRIOR YEAR | AMOUNT             | PERCENT<br>VARIANCE<br>PRIOR YEAR |
|------------------------|------------|-----------------------------------|--------------------|-----------------------------------|
| <b>As of 6/30/2000</b> |            |                                   |                    |                                   |
| Miscellaneous          | 619        |                                   | \$6,772,457        |                                   |
| Fire                   | 2          |                                   | 28,479             |                                   |
| Police                 | 17         |                                   | 237,398            |                                   |
| Adjustments            | 0          |                                   | 0                  |                                   |
| <b>TOTAL</b>           | <b>638</b> | <b>18.4%</b>                      | <b>\$7,038,334</b> | <b>39.0%</b>                      |
| <b>As of 6/30/1999</b> |            |                                   |                    |                                   |
| Miscellaneous          | 440        |                                   | \$4,739,632        |                                   |
| Fire                   | 0          |                                   | 0                  |                                   |
| Police                 | 5          |                                   | 175,952            |                                   |
| Adjustments            | 94         |                                   | 146,423            |                                   |
| <b>TOTAL</b>           | <b>539</b> | <b>5.3%</b>                       | <b>\$5,062,007</b> | <b>20.2%</b>                      |
| <b>As of 6/30/1998</b> |            |                                   |                    |                                   |
| Miscellaneous          | 402        |                                   | \$3,784,744        |                                   |
| Fire                   | 0          |                                   | 0                  |                                   |
| Police                 | 4          |                                   | 166,092            |                                   |
| Adjustments            | 106        |                                   | 260,236            |                                   |
| <b>TOTAL</b>           | <b>512</b> | <b>&lt;0.8%&gt;</b>               | <b>\$4,211,072</b> | <b>&lt;23.6%&gt;</b>              |



## Fiscal Division

### *Administering mandated benefit programs and providing promised benefits*

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information include:

- Net Assets held in trust for Pension Benefits
- Statement of Changes in Plan Net Assets
- Actuarial Report and Historical Information
- Disclosures as required by Governmental Accounting Standards Board (GASB)

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Systems and database maintenance
- Budgeting and appropriations control
- General ledger and reports

In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the employees' Retirement System is adequately funded at all times.

The accompanying audited statements of net assets available for pension benefits as of June 30, 2000, and 1999 and the related statements of changes in net assets held in trust for pension benefits are presented to provide information on the financial status of the pension trust fund.



## SFERS Actual Expenditures - 3 Year Comparison

| Description of Expenditures   | Retirement Services/Administration |                     |                     | Investment Division  |                      |                      |
|-------------------------------|------------------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|
|                               | 1999-00                            | 1998-99             | 1997-98             | 1999-00              | 1998-99              | 1997-98              |
| Personnel Services            | \$ 3,718,816                       | \$ 3,140,681        | \$ 2,975,306        | \$ 1,220,546         | \$ 1,048,667         | \$ 946,794           |
| Professional Services         | \$ 691,198                         | \$ 483,674          | \$ 270,955          | \$ 27,335,474        | \$ 18,485,493        | \$ 18,593,333        |
| Travel/Training               | \$ 17,161                          | \$ 18,321           | \$ 7,529            | \$ 29,676            | \$ 40,437            | \$ 17,861            |
| Communications                | \$ 127,876                         | \$ 13,146           | \$ 23,943           | \$ 26,692            | \$ 25,347            | \$ 24,321            |
| Rent-Property                 | \$ 359,785                         | \$ 147,854          | \$ 147,824          | \$ 119,538           | \$ 48,661            | \$ 49,275            |
| Rent-Equip.Maintenance        | \$ 1,264,499                       | \$ 22,606           | \$ 20,910           | \$ 3,718             | \$ 4,095             | \$ 2,773             |
| Other Non-Personal Services   | \$ 70,446                          | \$ 99,937           | \$ 60,692           | \$ 3,426             | \$ 8,871             | \$ 38,714            |
| Materials & Supplies          | \$ 44,238                          | \$ 42,059           | \$ 30,187           | \$ 14,837            | \$ 5,022             | \$ 7,916             |
| Services of Other Departments | \$ 3,185,356                       | \$ 1,674,287        | \$ 1,770,341        | \$ 2,150             | \$ 3,927             | \$ 2,983             |
| Equipment Purchase            | \$ 447,082                         | \$ 386,326          | \$ 161,950          | \$ 93,727            | \$ 15,363            | \$ 24,550            |
| Legal Services                | \$ 356,399                         | \$ 331,739          | \$ 329,339          | \$ 573,259           | \$ 344,580           | \$ 328,356           |
| <b>Total</b>                  | <b>\$ 10,282,856</b>               | <b>\$ 6,360,630</b> | <b>\$ 5,798,976</b> | <b>\$ 29,423,043</b> | <b>\$ 20,030,463</b> | <b>\$ 20,036,876</b> |

### Combined Three-Year Comparison

| Division                           | 1999-00             | 1998-99              | 1997-98              |
|------------------------------------|---------------------|----------------------|----------------------|
| Retirement Services/Administration | \$10,282,856        | \$ 6,360,630         | \$ 5,798,976         |
| Investment                         | \$29,423,043        | \$ 20,030,463        | \$ 20,036,876        |
| <b>Total</b>                       | <b>\$39,705,899</b> | <b>\$ 26,391,093</b> | <b>\$ 25,835,852</b> |





# SFERS Pension Fund Income

Fiscal Year 1999-2000

|                                                 | REALIZED<br>GAIN/LOSS | UNREALIZED<br>GAIN/LOSS | TOTAL            |
|-------------------------------------------------|-----------------------|-------------------------|------------------|
| <b>INCOME</b>                                   |                       |                         |                  |
| City and County Contributions                   |                       |                         | \$ 217,635       |
| Employee Contributions                          |                       |                         | 132,543,268      |
| Interest Earned                                 |                       |                         | 227,117,885      |
| Dividends Earned                                |                       |                         | 81,606,794       |
| Real Estate Income                              |                       |                         | 29,374,957       |
| Securities Lending Income-Net                   |                       |                         | 12,851,986       |
| Dollar Roll Income – Net                        |                       |                         | 1,720,401        |
| Recaptured Commission Income – Net              |                       |                         | 644,003          |
| Alternative Investment Income                   |                       |                         | 27,397,257       |
| Investment Expenses                             |                       |                         | (30,555,757)     |
| <b>TOTAL INCOME:</b>                            |                       |                         | \$ 482,918,429   |
| <b>NET APPRECIATION IN FAIR MARKET VALUES</b>   |                       |                         |                  |
| <b>DOMESTIC INVESTMENTS</b>                     |                       |                         |                  |
| Short-Term Securities                           | \$ 868,539            | (\$ 1,602,808)          | (\$ 734,269)     |
| Equities                                        | 275,163,838           | 125,469,266             | 400,633,104      |
| Government Bonds                                | (53,561,058)          | 33,429,050              | (20,132,008)     |
| Corporate Bonds                                 | (3,548,139)           | (1,751,270)             | (5,299,409)      |
| Real Estate                                     | 3,468,630             | 12,488,791              | 15,957,421       |
| Venture Capital                                 | 285,484,000           | 552,279,961             | 837,763,961      |
| Futures                                         | 64,920                | 0                       | 64,920           |
| <b>SUBTOTAL:</b>                                | \$ 507,940,730        | \$ 720,312,990          | \$ 1,228,253,720 |
| <b>INTERNATIONAL INVESTMENTS</b>                |                       |                         |                  |
| Equities                                        | \$ 454,816,768        | \$ 330,024,478          | \$ 784,841,246   |
| Bonds                                           | (11,694,034)          | (8,032,444)             | (19,726,478)     |
| Currency Conversion                             | (50,272,312)          | 10,657,725              | (39,614,587)     |
| Futures Contracts                               | 619,969               | 0                       | 619,969          |
| <b>SUBTOTAL:</b>                                | \$ 393,470,391        | \$ 332,649,759          | \$ 726,120,150   |
| <b>TOTAL INCOME including NET APPRECIATION:</b> | \$ 901,411,121        | \$ 1,052,962,749        | \$ 2,437,292,299 |
| <b>Increase/(Decrease) From FY 1998–99:</b>     |                       |                         | \$ 1,497,352,692 |



**SFERS Pension Fund Disbursements**  
**Fiscal Year 1999-2000**

| <b>PAYMENTS/EXPENSES</b>                         | <b>AMOUNT</b>         |
|--------------------------------------------------|-----------------------|
| Service Retirement Payments                      | \$ 261,129,285        |
| Withdrawals                                      | 7,285,359             |
| Disability Retirement Payments                   | 74,290,442            |
| Death Allowance Payments                         | 3,454,820             |
| Death Benefits                                   | 2,526,596             |
| Normal Contributions Paid as Death Benefit       | 2,529,858             |
| Retired Annuitant Rolls (Option 1 Death Benefit) | 749,341               |
| Proposition C – Cost of Living Adjustment        | 12,280,397            |
| Administrative Expenses                          | 10,282,856            |
| <b>TOTAL PAYMENTS &amp; EXPENSES:</b>            | <b>\$ 374,528,954</b> |
| Increase/(Decrease) From FY 1998-1999:           | \$ 26,979,004         |



## SFERS Contributions – 3 Year Comparison

### Employer (City and County) Contributions

| MEMBER PLAN        | FISCAL YEAR<br>1999-2000 | FISCAL YEAR<br>1998-1999 | FISCAL YEAR<br>1997-1998 |
|--------------------|--------------------------|--------------------------|--------------------------|
| Miscellaneous Plan | \$ 217,636               | \$ 276,147               | \$ 84,153                |
| Firefighter Plan   | -                        | -                        | -                        |
| Police Plan        | -                        | -                        | -                        |
| <b>TOTAL</b>       | <b>\$ 217,636</b>        | <b>\$ 276,147</b>        | <b>\$ 84,153</b>         |

### Employee Contributions

| MEMBER PLAN        | FISCAL YEAR<br>1999-2000 | FISCAL YEAR<br>1998-1999 | FISCAL YEAR<br>1997-1998 |
|--------------------|--------------------------|--------------------------|--------------------------|
| Miscellaneous Plan | \$ 113,030,434           | \$ 102,979,112           | \$ 96,125,724            |
| Firefighter Plan   | 8,869,212                | 7,617,027                | 6,662,930                |
| Police Plan        | 10,643,622               | 9,978,659                | 9,184,700                |
| <b>TOTAL</b>       | <b>\$ 132,543,268</b>    | <b>\$ 120,574,798</b>    | <b>\$ 111,973,354</b>    |





Three Embarcadero Center  
San Francisco, CA 94111

## Independent Auditors' Report

Honorable Mayor and Board of Supervisors  
City and County of San Francisco:

We have audited the accompanying statements of plan net assets of the San Francisco City and County Employees' Retirement System (the Retirement System) as of June 30, 2000 and 1999, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the San Francisco City and County Employees' Retirement System's net assets as of June 30, 2000 and 1999, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedules of Funding Progress and Employer Contributions on pages 16 to 18 are not required parts of the financial statements of the Retirement System, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

October 13, 2000





# SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Statements of Plan Net Assets

June 30, 2000 and 1999

| Assets                                                                                                 | 2000           | 1999       |
|--------------------------------------------------------------------------------------------------------|----------------|------------|
|                                                                                                        | (in thousands) |            |
| Deposits                                                                                               | \$ 6,354       | 5,153      |
| Contributions receivable – members                                                                     | 7,245          | 5,484      |
| Investment income receivable:                                                                          |                |            |
| Interest                                                                                               | 43,584         | 38,319     |
| Dividends                                                                                              | 4,003          | 4,540      |
| Securities lending                                                                                     | 1,330          | 788        |
| Dollar roll                                                                                            | —              | 48         |
| Receivables from brokers                                                                               | 253,389        | 229,342    |
| Receivables under fixed coupon dollar repurchase agreements                                            | 98,992         | —          |
| Investments at fair value:                                                                             |                |            |
| Short-term bills and notes                                                                             | 569,136        | 545,255    |
| Debt securities:                                                                                       |                |            |
| U.S. government securities                                                                             | 1,166,277      | 1,166,685  |
| Other debt securities                                                                                  | 1,892,562      | 1,842,873  |
| Equity securities                                                                                      | 7,111,864      | 6,111,979  |
| Real estate                                                                                            | 551,299        | 513,737    |
| Venture capital                                                                                        | 1,862,466      | 928,601    |
| Forward currency contracts                                                                             | 5,134          | (985)      |
| Investments in lending agents' short-term investment pool                                              | 1,836,360      | 1,458,610  |
| Total investments                                                                                      | 14,995,098     | 12,566,755 |
| Total assets                                                                                           | 15,409,995     | 12,850,429 |
| <b>Liabilities</b>                                                                                     |                |            |
| Payable to brokers                                                                                     | 246,306        | 222,224    |
| Obligations under fixed coupon dollar repurchase agreements                                            | 384,767        | 293,362    |
| Other liabilities                                                                                      | 11,256         | 7,691      |
| Payable to borrowers of securities                                                                     | 1,836,360      | 1,458,610  |
| Total liabilities                                                                                      | 2,478,689      | 1,981,887  |
| Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 16) | \$ 12,931,306  | 10,868,542 |

See accompanying notes to financial statements.



# SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Statements of Changes in Plan Net Assets

Years ended June 30, 2000 and 1999

|                                                                       | 2000                 | 1999              |
|-----------------------------------------------------------------------|----------------------|-------------------|
|                                                                       | (in thousands)       |                   |
| Additions:                                                            |                      |                   |
| Members' contributions                                                |                      |                   |
| Miscellaneous                                                         | \$ 113,248           | 103,255           |
| Police                                                                | 10,644               | 9,979             |
| Fire                                                                  | 8,869                | 7,617             |
|                                                                       | <u>132,761</u>       | <u>120,851</u>    |
| Investment income (expenses):                                         |                      |                   |
| Interest                                                              | 227,118              | 203,594           |
| Dividends                                                             | 81,607               | 75,210            |
| Net appreciation in fair value of investments                         | 2,011,790            | 988,426           |
| Securities lending income                                             | 97,092               | 81,766            |
| Fixed coupon dollar repurchase agreement income                       | 18,559               | 18,934            |
| Investment expenses                                                   | (30,556)             | (21,177)          |
| Securities lending borrower rebates and expenses                      | (84,241)             | (69,969)          |
| Fixed coupon dollar repurchase agreement finance charges and expenses | <u>(16,838)</u>      | <u>(18,300)</u>   |
| Investment income, net                                                | <u>2,304,531</u>     | <u>1,258,484</u>  |
| Total additions                                                       | <u>2,437,292</u>     | <u>1,379,335</u>  |
| Deductions:                                                           |                      |                   |
| Benefits                                                              | 356,961              | 336,094           |
| Refunds of contributions                                              | 7,285                | 5,095             |
| Administrative expenses                                               | <u>10,282</u>        | <u>6,361</u>      |
| Total deductions                                                      | <u>374,528</u>       | <u>347,550</u>    |
| Net increase                                                          | 2,062,764            | 1,031,785         |
| Net assets held in trust for pension benefits:                        |                      |                   |
| Beginning of year                                                     | <u>10,868,542</u>    | <u>9,836,757</u>  |
| End of year                                                           | <u>\$ 12,931,306</u> | <u>10,868,542</u> |

See accompanying notes to financial statements.



# Actuarial Summary

The Retirement System pays an array of benefits to members and their survivors -- service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next fiscal year. The Plan valuation at the beginning of the year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 1999 data. The results were first published in December 1999.

## Assumptions and Method

The main assumptions used to measure the System's liabilities for future benefits payments were:

|                                    |                                                            |
|------------------------------------|------------------------------------------------------------|
| Investment Returns                 | 8.25% per year                                             |
| Base Wage Increases                | 4.50% per year                                             |
| Merit and Promotion Wage Increases | 1.3%, approximately (varies by group and years of service) |
| Retiree Mortality                  | 1983 Group Annuity Mortality Table                         |

The actuarial funding method used was as follows:

- ♦ entry age normal cost method
- ♦ unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- ♦ unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.



## Key Results

Using the method and assumptions detailed above, the key findings of the latest valuation were:

### FUNDED STATUS

|                                         |                      |
|-----------------------------------------|----------------------|
| Actuarial Liability                     | \$ 6,430,740,000     |
| Actuarial Value of Assets               | <u>8,862,168,000</u> |
| Unfunded Liability (Surplus)            | \$ (2,431,428,000)   |
| Funded Status<br>(assets / liabilities) | 137.8%               |

### EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates to be paid by the City in Fiscal Year 2000-2001 were derived from the following actuarial valuation results:

|                                       | POLICE   | FIRE     | MISC.   | TOTAL    |
|---------------------------------------|----------|----------|---------|----------|
| Normal Cost                           | 18.93%   | 19.64%   | 11.83%  | 13.00%   |
| Unfunded Liability & Other Costs      | (42.61)% | (51.99)% | (6.21)% | (12.62)% |
| Employee Contributions                | 7.41%    | 7.37%    | 7.56%   | 7.53%    |
| City Contribution Rate                | (31.09)% | (39.72)% | (1.94)% | (7.15)%  |
| Board Approved City Contribution Rate | 0.0%     | 0.0%     | 0.0%    | 0.0%     |





## ADDITIONAL DETAILS

Based on the method and assumptions stated on the previous pages, the basic findings of the latest valuation were:

### Actuarial Valuation Results As of June 30, 1999

|                           | POLICE          | FIREFIGHTER     | MISCELLANEOUS     | TOTAL             |
|---------------------------|-----------------|-----------------|-------------------|-------------------|
| Active Members            | 2,145           | 1,732           | 24,935            | 28,812            |
| Annual Salaries           | \$141,700,000   | \$110,200,000   | \$1,339,200,000   | \$1,591,200,000   |
| Average Salary            | \$66,079        | \$63,614        | \$53,712          | \$55,228          |
|                           |                 |                 |                   |                   |
| Retired Members           | 1,880           | 1,690           | 13,612            | 17,182            |
| Annual Benefits           | \$62,400,000    | \$59,700,000    | \$225,100,000     | \$347,300,000     |
| Average Benefit           | \$33,202        | \$35,335        | \$16,539          | \$20,211          |
|                           |                 |                 |                   |                   |
| Actuarial Liability       | \$1,213,000,000 | \$965,000,000   | \$4,232,700,000   | \$6,430,700,000   |
| Actuarial Value of Assets | \$1,918,500,000 | \$1,635,500,000 | \$5,308,200,000   | \$8,862,200,000   |
| Unfunded Liability        | \$(705,400,000) | \$(670,500,000) | \$(1,055,500,000) | \$(2,431,000,000) |
| Funded Status             | 158.2%          | 169.5%          | 124.8%            | 137.8%            |
|                           |                 |                 |                   |                   |
| CONTRIBUTIONS RATES:      |                 |                 |                   |                   |
| Normal Cost               | 18.93%          | 19.64%          | 11.83%            | 13.00%            |
| + Unfunded Liability      | (43.06)%        | (52.44)%        | (6.66)%           | (13.07)%          |
| Total:                    | (24.13)%        | (32.80)%        | 5.17%             | (0.07)%           |
| - Employee Contribution   | 7.41%           | 7.37%           | 7.56%             | 7.53%             |
| + Administrative Expenses | 0.45%           | 0.45%           | 0.45%             | 0.45%             |
| City and County Rate      | (31.09)%        | (39.72)%        | (1.94)%           | (7.15)%           |



# Towers Perrin

---

November 2, 1999

Retirement Board of the San Francisco  
City and County Employees' Retirement System  
1155 Market Street, Second Floor  
San Francisco, CA 94103

Dear Honorable Members:

Enclosed are 20 copies of our report to the Board of the 1998-1999 experience of economic actuarial assumptions used in the valuation of the Employees' Retirement System. For purposes of consistency and to facilitate comparisons with previous studies, the layout and content are similar to those of prior years.

This report is based on information provided to us by the System's staff and on draft audited financial statements of the System.

The study reviews the following economic actuarial assumptions:

- Investment yield
- Wage inflation, or the general increases in salaries, and
- Inflation, as measured by the Consumer Price Index (CPI).

Our conclusion is that the economic assumption package used in the July 1, 1998 actuarial valuation continues to be suitable for purposes of this year's July 1, 1999 valuation. We look forward to discussing our analysis and conclusions with the Board at the November 9, 1999 Board meeting.

Sincerely,

*Leslie P. Finertie, EA*  
*ld*

LPF:dm

Enclosures







City and County of San Francisco  
Retirement System Annual Report

For the Year Ended June 30, 2001



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# City and County of San Francisco Employees' Retirement System

## *MISSION STATEMENT*

*San Francisco City and County Employees' Retirement System is  
Dedicated to securing, protecting and prudently investing the pension trust assets,  
Administering mandated benefit programs, and providing promised benefits.*

**Annual Report  
For Fiscal Year Ended June 30, 2001**



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## President's Message

### SERVING MEMBERS

### PROVIDING BENEFITS

### INVESTING ASSETS

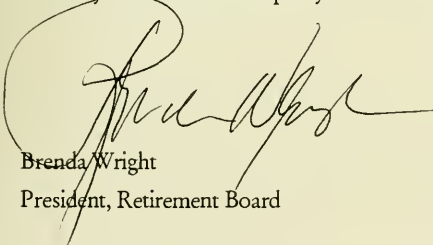
On Behalf of the San Francisco Retirement System Board and Staff, I am pleased to present the Annual Report for the fiscal year 2000-2001.

In this year of the World Trade Center tragedy and down markets, we are staying focused on the prudent investing of the assets of our participants and believe that these markets can be sustained. Below are some highlights affecting our participants that occurred during the year:

- In the November 2000 Election, the voters approved significant improvements in new plan miscellaneous benefits.
- The Deferred Compensation Plan was extended to cover deferrals of a portion of lump sum payments upon the retirement or termination of members.
- New system development projects, designed to provide enhanced member services continue on time and within budget.
- The Retirement Board continues its review of governance matters, to ensure focused decision-making and streamline service enhancements.

Despite adverse market conditions, the Plan's trust fund is strong, benefits are secure and the City and County has not had to pay employer contributions. While September 11 has created anxiety amongst all of us, it is important to know that we will continue to make choices based on sound economic logic.

The Retirement Board would like to thank our staff for their hard work and commitment and wish each of you Peace and Prosperity.



Brenda Wright  
President, Retirement Board



## The Retirement System

The San Francisco Employee's Retirement System was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS § 457 plan.

Each of these benefit plans is mandated by specific San Francisco City Charter sections and/or Administrative Code provisions.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS § 457 Plan, provides participants a tax-deferred method of deferring part of their salary during employment for distribution after retirement.

## The Retirement Board

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets twice each month and reviews and approves important elements of Retirement System business, including:

### Pension Fund Investment

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

### Actuarial Funding

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

### Active and Retired Members

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost-of-living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.





## Administration and Management

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

## Members of the 2000-2001 SFERS Retirement Board

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

|                                                                   |                                                         |
|-------------------------------------------------------------------|---------------------------------------------------------|
| Croce "Al" Casciato<br>Lieutenant, Police Department              | Elected Member<br>February 2005                         |
| Joseph D. Driscoll, C.F.A.<br>Lieutenant, Fire Department         | Elected Member<br>February 2006                         |
| Herb Meiberger, C.F.A.<br>Security Analyst, Retirement Department | Elected Member<br>February 2002                         |
| William Breall, M.D.<br>Cardiologist                              | Appointed Member<br>February 2004                       |
| Brenda Wright<br>Regional Manager, Financial Services             | Appointed Member<br>February 2003                       |
| Patricia E. Martel<br>Public Administrator                        | Appointed Member<br>February 2004                       |
| Leland Yee<br>Member, Board of Supervisors                        | Ex Officio Member<br>April 2000 through<br>January 2001 |
| Jake McGoldrick<br>Member , Board of Supervisors                  | Ex Officio Member<br>January 2001                       |



## SFERS Senior Administrative Staff

### Administration:

|                 |                     |
|-----------------|---------------------|
| Clare M. Murphy | Executive Director  |
| Jay Huish       | Deputy Director     |
| Kay Gulbengay   | Executive Assistant |

### Investment Division:

|                                          |                           |
|------------------------------------------|---------------------------|
| Carolyn Hamilton, C.F.A.                 | Chief Investment Officer  |
| Carl Wilberg<br>Equities                 | Senior Investment Officer |
| Richard Piket<br>Fixed Income            | Senior Investment Officer |
| Glen Schwartz<br>Alternative Investments | Senior Investment Officer |
| Donald Holcher<br>Real Estate            | Senior Investment Officer |

### Retirement Services Division:

|               |                                   |
|---------------|-----------------------------------|
| Maria Newport | Retirement Services Administrator |
|---------------|-----------------------------------|

### Actuarial Division:

|                       |         |
|-----------------------|---------|
| Kieran Murphy, A.S.A. | Actuary |
|-----------------------|---------|

### Fiscal Division:

|         |                  |
|---------|------------------|
| Les Win | Chief Accountant |
|---------|------------------|

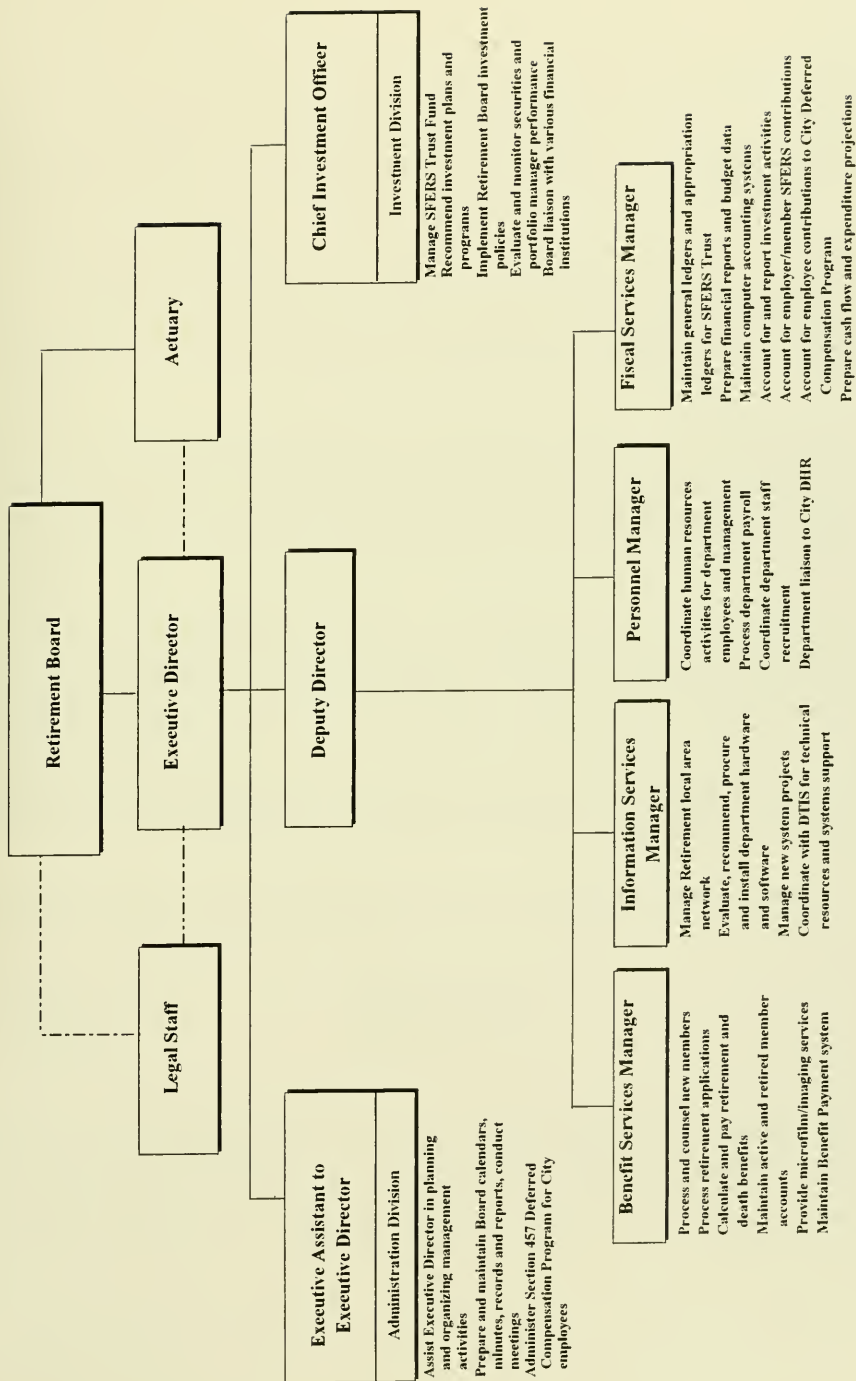
### Legal Counsel:

|             |                      |
|-------------|----------------------|
| Dan Maguire | Deputy City Attorney |
|-------------|----------------------|

The organization chart on the following page describes the organizational structure of the Retirement System and the major functional responsibilities of each division within the Retirement System.



# San Francisco City and County Employees' Retirement System Organization Chart Plan Year Ended June 30, 2001





## Highlights of Retirement Board Activities for Fiscal Year 2000-2001

The SFERS Retirement Board conducted twenty meetings and addressed several significant issues during the 2000-2001 Fiscal Year.

### General Administrative Highlights

During the 2000-2001 fiscal year the Retirement Board continued its policy development efforts in addition to the traditional oversight covering benefits and investment activities of the Plan. The 2000-2001 highlights also include the distribution of Summary Plan Descriptions (SPDs) to all active plan participants.

At the beginning of the fiscal year the Board reviewed governance issues and set several priorities regarding policy development and organizational succession issues, focusing on the positions of the Chief Investment Officer and the Actuary. At a special meeting in March 2001, the Board approved the recommendations of the Ad Hoc Committee (Pat Martel, Chair, Brenda Wright and Al Casciato) and Cortex Applied Research Inc. regarding the succession processes for the Chief Investment Officer position.

In November 2000, the Retirement Board adopted the *Benefit Interpretation Policy and Procedure* to address questions of interpretation of the Charter and Administrative Code as specific questions or cases arise. This new policy and procedure is designed to provide the Retirement Board with a complete review of interpretation issues and to document both the research and any findings of decisions for future use.

At the October 10<sup>th</sup> meeting the Board approved the Communications plan for 2001 implementing the objectives outlined in the Member Communications Policy which was adopted in March of 2000.

At the November 14, 2000 meeting President Herb Meiberger named the following commissioners to the Finance and Personnel committees for 2001:

#### Finance Committee

Pat Martel  
Brenda Wright  
Herb Meiberger

#### Personnel Committee

William Breall M.D.  
Joe Driscoll  
Croce "Al" Casciato

In January 2001 Board of Supervisors' President Tom Ammiano designated Supervisor Jake McGoldrick as the ex-officio trustee on the Retirement Board. The Retirement Board held its annual election of officers on March 13<sup>th</sup>, 2001, and Ms. Brenda Wright was elected President and Mr. Al "Croce" Casciato was elected Vice-President. In June 2001, the Board declared a vacancy effective February 2002 due to the completion of the current term of Commissioner Herb Meiberger.





The San Francisco voters passed Proposition C on the November 2000 ballot improving the benefits for new plan miscellaneous members. The Retirement Board reviewed and approved staff plans for implementation of the improved benefits and the distribution of summary plan description booklets to all active members by March 2001.

The Board approved annual basic and supplemental cost of living adjustments for retired members and the annual actuarial contract with Towers Perrin as consulting actuary. The Board adopted economic assumptions and reviewed the Economic Analysis of the fund in November and adopted zero employer contribution rates for the 2001-2002 fiscal year at the December Board meeting.

The Retirement Board adopted criteria and standards for SFC&C departmental record retention policies regarding payroll and personnel records and authorized staff to review and approve individual departmental policies. The Retirement Board during the May 8th meeting approved draft legislation, which would allow members to rollover tax qualified funds to purchase service credit or repay shortages. The Board requested that Supervisor McGoldrick carry the legislation.

The establishment of the Trial Courts of California, consolidating the Superior and Municipal Courts of each of the fifty-eight counties resulted in Retirement Board action to amend San Francisco Administrative Code sections to recognize the Trial Courts of California, San Francisco as a separate employer under SFERS and an administrative agreement regarding the responsibilities of the Trial Courts and SFERS.

The Retirement Board maintained careful oversight of several lawsuits involving the San Francisco Employees' Retirement System and The San Francisco Deferred Compensation Plan. At the January 10, 2001 meeting the Retirement Board authorized a settlement with the Retired Firefighter and Widows Association regarding the inclusion of the Training and Education component in the base wage utilized to determine cost of living allowances.



## **Investment Highlights**

Throughout the fiscal year the Retirement Board reviewed the performance of the Trust Fund and the performance and adherence to guidelines by individual managers. In April of 2001, the Retirement Board assigned the Investorforce.com general consulting contract to Angeles Investment Advisors as a result of a strategic change in business plans for Investorforce.com and a migration of key general consulting personnel to the newly formed Angeles Investment Advisors.

The following is a summary of the investment activity that the Retirement Board and staff accomplished during Fiscal Year 2000-2001, organized by the major segments of the capital markets:

### **Equity**

While there was considerable reallocation of assets within the domestic equity portfolios, there were no terminations of or additions to the equity managers in Fiscal Year 2000-2001. However, there was a shift in international equity managers as a result of a study completed in the previous year. Two existing non-U.S. equity managers, Nicholas Applegate and Oechsle, were selected to manage an international large capitalization mandate with the Morgan Stanley Capital International Europe, Asian and Far East Index (MSCI EAFE) as the performance benchmark.

Throughout the course of the Fiscal year the equity staff also conducted and presented to the Retirement Board studies of various investment strategies for possible inclusion at later dates.

### **Fixed Income**

There were no changes made in the fixed income managers for the Retirement System in Fiscal Year 2000-2001. However, the Retirement Board directed asset allocations within fixed income portfolios that reduced the amount of investments in high yield corporate bonds in favor of core fixed income portfolios.

### **Real Estate**

There were significant developments in the Real Estate Portfolio of the Retirement System as a major expansion and restructuring program was completed during the fiscal year. Real Estate holdings rose from \$551 million at the beginning of the fiscal year to over \$863 million as of 6/30/01, which represents a 56% increase. The Real Estate portfolio returned 11.25% in the Fiscal Year, outperforming the previous year's return of 10.43%. It is anticipated that the SFERS Real Estate portfolio will continue to provide a positive and diversifying return contribution.



## Alternative Investments

The Retirement Board reviewed staff commitments made under approved delegated authority, which resulted in participation by SFERS in the following new partnerships in Fiscal Year 2000-2001:

### New Limited Partnerships in Fiscal Year 2001

| Partnership                              | Type                         |
|------------------------------------------|------------------------------|
| ABS Capital Partners IV, LP              | Venture Capital              |
| Menlo Ventures IX, LP                    | Venture Capital              |
| Grotech VI, LP                           | Venture Capital              |
| Sprout Capital Partners IX, LP           | Venture Capital              |
| Fox Paine Capital Partners II            | Private Equity               |
| ABRY Partners IV, LP                     | Private Equity               |
| Providence Equity Partners IV, LP        | Private Equity               |
| Summit Ventures VI, LP                   | Venture Capital              |
| BC European Capital VII Top-Up           | International Private Equity |
| Advance Technology Ventures VII, LP      | Venture Capital              |
| Worldview Technology Partners IV         | Venture Capital              |
| Apax Europe V, LP                        | International Private Equity |
| Madison Dearborn Capital Partners IV, LP | Private Equity               |
| First Reserve Fund IX, LP                | Oil and Gas                  |
| Apollo Investment Fund V                 | Private Equity               |
| CSFB Global Opportunities Fund           | Other                        |
| DLJ Merchant Banking Partners III, L.P.  | Private Equity               |
| Morgenthaler Partners VII                | Venture Capital              |
| Polaris Venture Partners IV              | Venture Capital              |

These new investments of approximately \$335 million reflect the largest commitment to alternative investments in a single fiscal year and continue the Retirement Board's strategy to diversify the portfolio and enhance the returns of the Trust.



## SFERS Administration

### *Administering mandated benefit programs and providing promised benefits*

The SFERS Retirement Board, subject to the provisions of the San Francisco City Charter, appoints an Executive Director to direct and manage the Retirement System's programs and operations.

SFERS Administration oversees the overall management of the Retirement System with the goal of providing the highest level of service to members and their beneficiaries. SFERS Administration implements the policies and directives of the Retirement Board.

SFERS Administration performs a wide range of services for the Retirement Board including:

- Preparation and distribution of calendars and minutes of all Retirement Board meetings;
- Assistance to the Retirement Board in the conduct of its meetings;
- Preparation of a variety of reports and correspondence pertaining to Retirement Board activities; and
- Recommendations and proposals to the Retirement Board on matters that affect the administration and management of the Retirement System.

### San Francisco Deferred Compensation Plan

SFERS Administration oversees and monitors the City's Deferred Compensation Plan (DCP) through a third-party plan administrator, currently ING Aetna Financial Services, and administers the hardship withdrawal application process for this plan. The Deferred Compensation (457) Plan, adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from City service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

During the past year, the City's Deferred Compensation Plan grew in participants but declined in assets as a result of the weak securities markets. The number of plan participants surpassed the 20,000 level for the first time. The Plan offers a diversified selection of 20 investment core products and access to self-directed brokerage window. Participants are able to access their individual accounts to reallocate their investments via the Internet. Plan participants are also served by ING Aetna Financial Services staff locally and through telephone customer call centers. ING completed the acquisition of Aetna Financial Services and Aetna International in December, 2000.

As a result of the recommendations of the Committee on Investment Options and the review of an investment performance assessment by KPMG, the Retirement Board revised the core products of the Deferred Compensation (457) Plan by the addition of three new investment funds and deleting three under performing funds. The Retirement Board wrote to participants emphasizing the importance of diversification in the selection process of their investment options.

The Retirement Board amended the DCP Plan Document to continue Trial Court Employees as to participation in the DCP as a separate employer. The Board approved the deferral of a portion of a lump sum vacation and/or sick pay to the Deferred Compensation (457) Plan.





The Retirement Board continues to monitor the Deferred Compensation Plan to ensure participants are provided with on-going enhancements, well-performing investment funds and a competitive fee structure.

The following pages provide detailed statistical information related to the City's Deferred Compensation Plan (Information for the period July 1, 1998 through February 1, 1999 is from the previous Plan Administrator - Hartford Life and information for the period February 2, 1999 through June 30, 2001 is from ING Aetna Financial Services).

## **Disability Application Processing**

SFERS Administration administers and monitors the hearing officer process for SFERS disability retirement applications. Hearing officers, under contract with the Retirement System, take testimony and make determinations on all SFERS disability retirement applications, disability leave and death benefits. The hearing officers are selected and assigned through either the California State Office of Administrative Hearings or the American Arbitration Association. SFERS Administration has met with union representatives and attorneys for applicants in a review of the disability application and hearing process. (Page 16 includes statistics for the SFERS Disability Application Processing for Fiscal Year 1999-2000.)

## **Actuarial Services**

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System.



**CITY & COUNTY OF SAN FRANCISCO 457 PLAN**  
**DEFERRED COMPENSATION: THREE YEAR COMPARISON**  
**ING Aetna Financial Services**

|                                    | FY 2000-01           |             | FY 1999-00             |            | FY 1998-99<br>(2/2/98- 6/30/99) |
|------------------------------------|----------------------|-------------|------------------------|------------|---------------------------------|
|                                    | ACTUAL               | CHANGE      | ACTUAL                 | CHANGE     | ACTUAL                          |
| Fixed Account                      | \$250,876,275        | 21%         | \$206,801,920          | 6%         | \$194,844,521                   |
| Ariel Growth                       | 13,208,177           | 673%        | 1,709,261              | 74%        | 980,441                         |
| Janus Twenty                       | 120,863,104          | -41%        | 204,313,721            | 48%        | 137,653,462                     |
| Janus Aspen Series Flexible Income | 4,403,793            | 75%         | 2,522,104              | -12%       | 2,875,228                       |
| Janus Aspen Series Worldwide       | 52,962,664           | -32%        | 77,917,830             | 175%       | 28,301,547                      |
| Janus Aspen Series Balanced        | 35,056,262           | -2%         | 35,788,982             | 35%        | 26,444,687                      |
| Aetna Money Market                 | 22,727,435           | 39%         | 16,302,170             | 109%       | 7,793,572                       |
| Aetna Bond                         | 16,293,825           | 86%         | 8,770,816              | -12%       | 9,985,453                       |
| Aetna Balanced VP                  | 73,016,307           | -10%        | 81,041,442             | -5%        | 85,224,233                      |
| Aetna Index Plus Large Cap VP      | 44,796,468           | -12%        | 51,048,312             | 7%         | 47,873,217                      |
| Aetna Growth VP                    | 12,378,002           | -26%        | 16,781,286             | 76%        | 9,526,111                       |
| Aetna International VP             | 3,722,917            | -41%        | 6,292,413              | 151%       | 2,502,963                       |
| Aetna Small Company VP             | 3,574,111            | 100%        | -                      | -          | -                               |
| Aetna Value Opportunity VP         | 14,026,623           | 100%        | -                      | -          | -                               |
| AIM VI Capital Appreciation        | 80,501,517           | -31%        | 116,821,001            | 42%        | 82,331,888                      |
| AIM VI Growth                      | 9,641,409            | -48%        | 18,565,673             | 58%        | 11,715,521                      |
| Fidelity VIP Equity Income         | -                    | -100.00%    | 10,047,562             | -30%       | 14,292,730                      |
| PPI Scudder International Growth   | 12,745,619           | -32%        | 18,790,725             | 60%        | 11,714,139                      |
| PPI MFS Research Growth            | -                    | -100.00%    | 1,028,614              | 133%       | 441,047                         |
| PPI T Rowe Price Growth Equity     | 89,740,829           | -16%        | 107,067,720            | 2%         | 105,400,683                     |
| Calvert Social Balance             | 7,809,602            | -2%         | 7,942,331              | 5%         | 7,547,777                       |
| Citizens Emerging Growth Fund      | 2,480,311            | 100%        | -                      | -          | -                               |
| Lazard Small Cap                   | -                    | -100.00%    | 1,323,213              | -28%       | 1,847,499                       |
| Aetna Ultimate - Brokerage Acct    | 7,038,101            | -36%        | 10,998,397             | 569%       | 1,644,718                       |
| <b>Fiscal Year Totals</b>          | <b>\$877,863,352</b> | <b>-12%</b> | <b>\$1,001,875,493</b> | <b>27%</b> | <b>\$790,941,437</b>            |
| Number of Active Participants      | 20,253               | 3%          | 19,695                 | 15%        | 17,143                          |
| Retirees Receiving Benefits        | 1,618                | 10%         | 1,468                  | 66%        | 884                             |
| Retiree Assets                     | \$140,301,766        | 3%          | \$135,800,146          | 43%        | \$95,094,435                    |



# HARTFORD LIFE & ANNUITY

## July 1, 1998 – February 1, 1999

| INVESTMENT OPTIONS:                       | (7/1/98 – 2/1/99)    |
|-------------------------------------------|----------------------|
| General Account                           | \$204,237,726        |
| Stock HLS Fund, Inc.                      | 95,067,488           |
| Bond HLS Fund, Inc.                       | 8,753,135            |
| Advisor HLS Fund, Inc.                    | 99,751,121           |
| Money Market HLS Fund, Inc.               | 7,532,570            |
| Capital Appreciation HLS Fund, Inc.       | 63,593,194           |
| Mortgage Securities HLS Fund, Inc.        | 3,302,532            |
| Index HLS Fund, Inc.                      | 29,643,747           |
| Calvert Social Balanced                   | 7,588,688            |
| International Opp HLS Fund, Inc.          |                      |
| AMS/American Century: 20th Century Ultra  | 43,786,133           |
| AMS/American Century: 20th Century Select | 5,450,045            |
| AMS/American Century: Balanced Fund       | 1,762,425            |
| AMS/FA Growth                             | 34,711,632           |
| AMS/FA Advisor Balanced Fund              | 5,161,032            |
| AMS/FA STR. OPP                           | 918,560              |
| AMS/FA Overseas                           | 2,237,750            |
| Dividend & Growth HLS Fund, Inc.          | 9,354,954            |
| Scudder Growth & Income                   | 2,725,251            |
| Janus Twenty                              | 59,990,389           |
| Janus Worldwide                           | 15,915,245           |
| Putnam Vista                              | 844,511              |
| Putnam High Yield Advantage               | 1,387,653            |
| Putnam International New Opportunities    | 492,766              |
| American Century Income & Growth          | 9,069,117            |
| American Century Value                    | 947,687              |
| Skyline Small Cap Value Plus              | 1,133,847            |
| Fidelity Advisor Growth & Income          | 2,019,805            |
| <b>Fiscal Year Totals</b>                 | <b>\$729,724,237</b> |

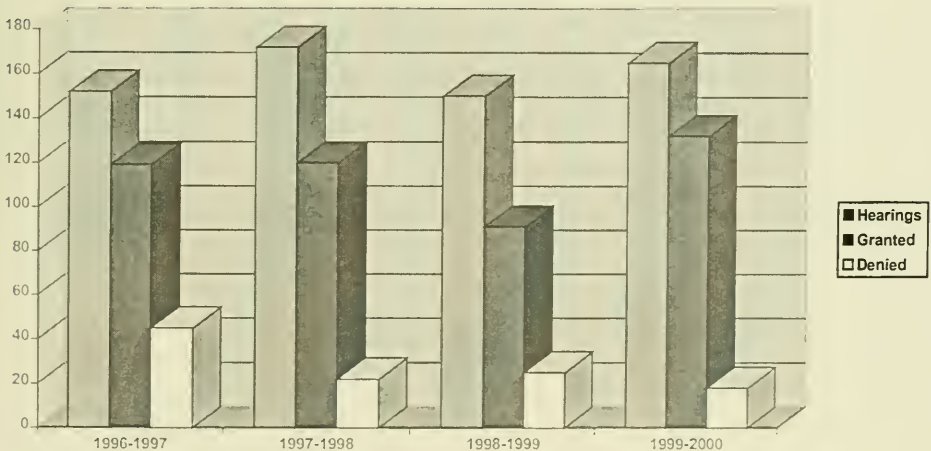


## Hearing Officer Report Fiscal Year Ended June 30, 2001

| CASES                                | TOTAL<br>NO. OF<br>HEARINGS | TOTAL<br>NO.<br>GRANTED | TOTAL<br>NO.<br>DENIED |
|--------------------------------------|-----------------------------|-------------------------|------------------------|
| Industrial Disability Retirements    | 71                          | 49                      | 11                     |
| Ordinary Disability Retirements      | 100                         | 70                      | 16                     |
| Industrial Disability Determinations | 0                           |                         |                        |
| Death Benefits                       | 3                           | 2                       | 1                      |
| Petitions for Rehearing              | 0                           | 1                       | 19                     |
| PERS                                 | 11                          | 70                      | 1                      |
| Reinstatements                       | 1                           | 0                       | 1                      |
| <b>TOTAL</b>                         | <b>186*</b>                 | <b>135</b>              | <b>49</b>              |

*\* The number of hearings does not equal number of decisions because many decisions are held over from the previous year due to the time required in the preparation of cases for disability hearings and are not reported.*

## Hearing Officer Report Four-Year Comparison







## Investment Division

### *Dedicated to securing, protecting and prudently investing the pension trust assets*

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the seventy years since its inception. The Retirement System's goal, however, has essentially remained the same: **to maximize long-term rates of return on investments within prudent guidelines.**

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2001, approximately 19% of SFERS trust assets were managed internally, including \$981 million in domestic bonds and \$ 1.2 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including global and domestic fixed income, international and domestic equities, real estate and alternative investments.

### **Investment Highlights for Fiscal Year Ended June 30, 2001**

For the Fiscal year ended June 30, 2001, the Investment portfolio of the Retirement System experienced the effects of a turbulent year in the capital markets. The Equity and Alternative Assets portfolios fell in value in line with the decline in the equity markets, while the Fixed Income and Real Estate portfolios posted solid returns. As a result, the total Fund experienced a total rate of return of -10.4% for the Fiscal year versus the SFERS weighted policy benchmark of -4.0%.

Within asset classes, the combined U.S. Equity portfolio returned -13.86% versus a Russell 3000 benchmark of -13.94% while non-U.S. Equity portfolio declined by -28.92% versus the EAFE benchmark return of -23.81%. The Alternative Asset portfolio also reported a -19.4% return for the year compared with its benchmark's return of -9.43% (S & P 500 Index + 6%). Offsetting these negative returns were a 9.77% return on the total Fixed Income portfolio versus the Lehman Aggregate benchmark of 10.63% and an 11.3% return on Real Estate versus a NCREIF benchmark of 11.89%.

While the investment returns for the past Fiscal Year were disappointing, on a longer term basis the investment performance for SFERS has been very strong on both an absolute and relative basis as shown in the table below:



## Investment Portfolio Performance

### Annualized Returns for the Periods ending 6/30/2001

|                                                        | <u>One Year</u>                 | <u>3 Years</u>               | <u>5 Years</u>                |
|--------------------------------------------------------|---------------------------------|------------------------------|-------------------------------|
| Domestic Equity<br>(benchmark: Russell 300)            | -13.86%<br>-13.94%              | 4.38%<br>4.25%               | 13.45%<br>13.76%              |
| International Equity<br>(benchmark: MSCI EAFE)         | -28.92%<br>-23.81%              | 4.90%<br>-4.8%               | 6.71%<br>2.67%                |
| Domestic Fixed Income<br>(benchmark: Lehman Universal) | 10.63%<br>10.83%                | 6.20%<br>6.12%               | 7.99%<br>7.40%                |
| Global Fixed Income<br>(benchmark: Lehman Global)      | 7.54%<br>4.81%                  | 4.25%<br>4.03%               | 5.02%<br>4.06%                |
| Real Estate<br>(benchmark: NCREIF)                     | 11.25%<br>11.89%                | 9.94%<br>12.51%              | 12.77%<br>12.72%              |
| Alternative Assets<br>(benchmark: S&P + 6%)            | -19.39%<br>-9.64%               | 26.29%<br>10.09%             | 28.14%<br>21.26%              |
| <b>TOTAL Fund</b><br>(weighted policy benchmark)       | <b>-10.37%</b><br><b>-6.68%</b> | <b>7.36%</b><br><b>5.08%</b> | <b>11.16%</b><br><b>8.51%</b> |

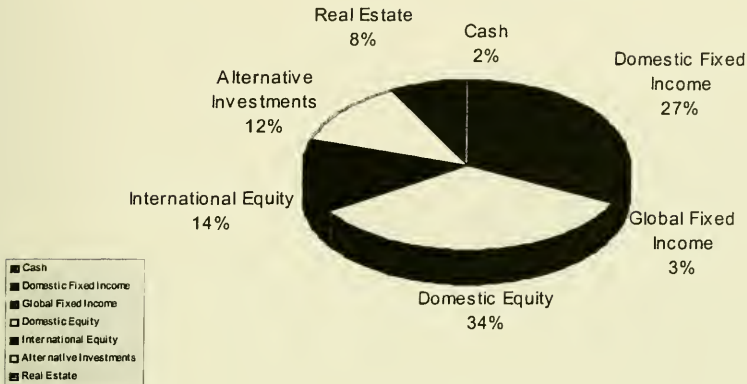
Source: The Northern Trust Company

The following pages contain charts illustrating:

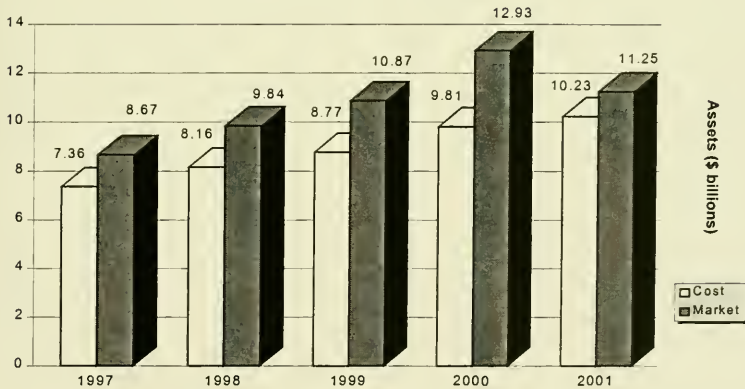
**Asset Allocation as of June 30, 2001**  
**SFERS Trust Fund Assets**  
**Investment Portfolio Performance**  
**Investment Earnings & Assets**



## ASSET ALLOCATION AS OF JUNE 30, 2001 - MARKET VALUE



## PENSION FUND ASSETS





# INVESTMENT EARNINGS & ASSETS – FIVE YEAR HISTORY

| FISCAL YEAR ENDED JUNE 30 | INTEREST INCOME | DIVIDEND INCOME | REAL ESTATE INCOME | ALTERNATIVE INVESTMENT INCOME | TOTAL REALIZED GAIN/(LOSS) | UNREALIZED GAIN/(LOSS) CHANGE | TOTAL EARNINGS     |
|---------------------------|-----------------|-----------------|--------------------|-------------------------------|----------------------------|-------------------------------|--------------------|
| 2001                      | \$ 256,017,416  | \$ 65,121,941   | \$ 48,987,091      | \$ (11,172,920)               | \$ 360,191,823             | \$ (2,119,255,360)            | \$ (1,400,110,009) |
| 2000                      | \$ 240,671,062  | \$ 81,606,794   | \$ 29,374,957      | \$ 27,397,257                 | \$ 901,411,122             | \$ 1,052,962,749              | \$ 2,333,423,941   |
| 1999                      | \$ 215,707,426  | \$ 75,210,418   | \$ 34,988,747      | \$ 14,299,822                 | \$ 498,845,984             | \$ 439,394,832                | \$ 1,278,447,229   |
| 1998                      | \$ 211,223,401  | \$ 74,920,497   | \$ 30,207,714      | \$ 1,382,749                  | \$ 755,361,367             | \$ 328,769,928                | \$ 1,401,865,656   |
| 1997                      | \$ 263,168,871  | \$ 57,357,584   | \$ 32,918,050      | \$ 5,772,781                  | \$ 474,990,608             | \$ 490,420,684                | \$ 1,324,628,578   |

| FISCAL YEAR ENDED JUNE 30 | FIXED INCOME (FAIR VALUE) | EQUITY (FAIR VALUE) | REAL ESTATE (FAIR VALUE) | ALTERNATIVE INVESTMENTS (FAIR VALUE) | Money Market | TOTAL PORTFOLIO (FAIR VALUE) | TOTAL PORTFOLIO (BOOK VALUE) |
|---------------------------|---------------------------|---------------------|--------------------------|--------------------------------------|--------------|------------------------------|------------------------------|
| 2001                      | 3,402,051,535             | 5,361,633,163       | 875,014,860              | 1,363,120,151                        | 244,519,844  | 11,246,339,553               | \$ 10,232,906,930            |
| 2000                      | 3,058,839,025             | 7,111,864,028       | 551,299,038              | 1,862,466,346                        | 345,981,126  | 12,930,449,563               | \$ 9,761,606,113             |
| 1999                      | 3,009,558,463             | 6,111,979,234       | 513,737,188              | 928,601,465                          | 304,649,273  | 10,868,525,623               | \$ 8,768,859,590             |
| 1998                      | 2,794,890,343             | 5,117,032,878       | 493,836,137              | 616,429,401                          | 815,889,634  | 9,838,078,393                | \$ 8,163,679,026             |
| 1997                      | 2,890,146,027             | 4,137,637,309       | 577,308,687              | 451,995,788                          | 603,122,930  | 8,660,212,738                | \$ 7,316,184,016             |





## Portfolio Investment as of June 30, 2001

| Category                         | Cost                     | %<br>of Total  | Market                   | %<br>of Total  |
|----------------------------------|--------------------------|----------------|--------------------------|----------------|
| Cash & Cash Equivalents          | 195,074,925              | 1.91%          | 244,519,844              | 2.17%          |
| <b>EQUITIES</b>                  |                          |                |                          |                |
| Basic industries                 | 142,644,775              | 1.39%          | 167,040,705              | 1.49%          |
| Capital goods industries         | 122,594,194              | 1.20%          | 233,630,172              | 2.08%          |
| Consumer durables                | 44,316,440               | 0.44%          | 49,076,714               | 0.44%          |
| Consumer non-durables & services | 749,372,507              | 7.32%          | 1,058,648,408            | 9.41%          |
| Energy                           | 134,317,689              | 1.31%          | 184,406,265              | 1.64%          |
| Financial services               | 397,366,130              | 3.88%          | 611,718,976              | 5.44%          |
| Miscellaneous                    | 266,622,373              | 2.61%          | 427,074,571              | 3.80%          |
| Technology                       | 445,534,196              | 4.36%          | 523,198,487              | 4.65%          |
| Utilities                        | 518,001,232              | 5.06%          | 495,199,541              | 4.40%          |
| Foreign stock                    | 1,625,304,008            | 15.88%         | 1,611,639,325            | 14.33%         |
| <b>Equities Total</b>            | <b>4,446,073,544</b>     | <b>43.45%</b>  | <b>5,361,633,163</b>     | <b>47.68%</b>  |
| <b>FIXED INCOME</b>              |                          |                |                          |                |
| Basic industries                 | 169,628,278              | 1.65%          | 165,018,410              | 1.47%          |
| Capital goods industries         | 31,494,618               | 0.31%          | 31,686,314               | 0.28%          |
| Consumer durables                | 3,856,691                | 0.04%          | 3,109,400                | 0.03%          |
| Consumer non-durables & services | 172,783,767              | 1.69%          | 151,112,991              | 1.34%          |
| Energy                           | 18,834,318               | 0.18%          | 19,029,165               | 0.17%          |
| Financial services               | 803,513,087              | 7.85%          | 756,121,592              | 6.72%          |
| Miscellaneous                    | 239,922,469              | 2.34%          | 245,729,034              | 2.19%          |
| Mortgages                        | 202,256,895              | 1.98%          | 198,006,775              | 1.76%          |
| Technology                       | 18,191,027               | 0.18%          | 15,513,220               | 0.14%          |
| US Government                    | 1,400,350,152            | 13.69%         | 1,381,594,867            | 12.28%         |
| Utilities                        | 77,089,986               | 0.75%          | 74,601,403               | 0.66%          |
| Foreign government and corporate | 378,490,492              | 3.70%          | 360,528,366              | 3.21%          |
| <b>Fixed Income Total</b>        | <b>3,516,411,779</b>     | <b>34.36%</b>  | <b>3,402,051,535</b>     | <b>30.25%</b>  |
| <b>OTHER INVESTMENTS</b>         |                          |                |                          |                |
| Real estate                      | 790,954,449              | 7.73%          | 875,014,861              | 7.78%          |
| Venture capital and partnerships | 1,284,392,233            | 12.55%         | 1,363,120,151            | 12.12%         |
| <b>Other Investments Total</b>   | <b>2,075,346,682</b>     | <b>20.28%</b>  | <b>2,238,135,012</b>     | <b>19.90%</b>  |
| <b>Total Portfolio</b>           | <b>\$ 10,232,906,930</b> | <b>100.00%</b> | <b>\$ 11,246,339,554</b> | <b>100.00%</b> |



## Retirement Services Division 2001

### *Administering mandated benefit programs and providing promised benefits*

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement counseling.

### **SFERS Plan Membership**

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of two tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current New Plan Firefighter benefits are established by Charter amendment passed in November 1996; current New Plan Police benefits are established by Charter amendment passed in November 1998; and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000. Miscellaneous Plan members have been covered under the Social Security System since September 1959 (City Charter §8.514).

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, as well as the City and County of San Francisco. Plan membership is in effect as long as member contributions remain on deposit with SFERS.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems.

In 1968, deputized personnel of the Sheriff's Department were authorized to transfer to the State of California Public Employees' Retirement System (CalPERS). Airport Police and Institutional Police personnel were authorized to transfer to CalPERS in 1984 and 1985, respectively. District Attorney Investigators similarly were authorized to transfer to CalPERS in 1986.

In 1972, school teachers were authorized to transfer to the State Teachers Retirement System (STRS).

On September 1, 1990, employees who were Adult and Juvenile Probation Officers on that date became CalPERS members for all prospective service rendered in qualified job classes. Past service credit was transferred for most members in September 1996.

On September 1, 1995, Retirement System membership rules were changed: employees who had earned not less than 1040 hours of compensation during any 12-month period became eligible for retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.



On December 27, 1997, Airport Police Officers became members of the SFERS under Charter §A8.586 (Police New Plan.)

On February 21, 1998, Miscellaneous Plan members in paramedic job classes who were members of SFERS under City Charter §A8.509 and A8.584, became members of SFERS under City Charter §A8.588 (Fire New Plan).

Other Plan Membership Charter References:

| CHARTER SECTION | EMPLOYEE GROUP                                                                                                        |
|-----------------|-----------------------------------------------------------------------------------------------------------------------|
| A8.508-1        | Teachers – STRS                                                                                                       |
| A8.505          | Port Employees – CalPERS                                                                                              |
| A8.506          | Sheriff's Employees – CalPERS                                                                                         |
| A8.506-2        | Airport Police Officers, Institutional Police Officers, District Attorney Investigators, Probation Officers – CalPERS |
| A8.506-3        | Housing Authority Police – CalPERS                                                                                    |
| A8.586          | Airport Police Officers – SFERS members                                                                               |
| A8.588          | Paramedics                                                                                                            |



## SFERS Membership

SFERS active membership falls within three categories:

- **Active Members** who are currently on City and County Payroll
- **Vested Members** who have left City and County employment with 5 or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
- **Reciprocal Members** who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2001, there were 29,734 members of the Miscellaneous Plans, 2,233 members of the Police Plans and 1,814 members of the Firefighter Plans.

### SFERS Active Membership as of June 30, 2001

| PLAN MEMBERSHIP GROUP                                       | NUMBER OF ACTIVE MEMBERS |            |            |               |
|-------------------------------------------------------------|--------------------------|------------|------------|---------------|
|                                                             | Active                   | Vested     | Reciprocal | Total         |
| Old Miscellaneous Plan members before November 2, 1976      | 2,342                    | 29         | 3          | 2,374         |
| New Miscellaneous Plan members on or after November 2, 1976 | 26,321                   | 634        | 405        | 27,360        |
| Old Police Plan members before November 2, 1976             | 264                      | 1          | 0          | 265           |
| New Police Plan members on or after November 2, 1976        | 1,934                    | 29         | 5          | 1,968         |
| Old Firefighter Plan members before November 2, 1976        | 325                      | 0          | 0          | 325           |
| New Firefighter Plan members on or after November 2, 1976   | 1,481                    | 5          | 3          | 1,489         |
| <b>TOTALS:</b>                                              | <b>32,667</b>            | <b>698</b> | <b>413</b> | <b>33,781</b> |

Miscellaneous Plan members comprise approximately 88.0% of the total SFERS Plan membership, with approximately 8.0% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.6% and 5.4% of the total membership, respectively.





Miscellaneous Plan members are members of the Social Security System (City Charter § A8.514). Social Security coverage was first made available to City and County employees in September 1959. Members covered under Social Security may elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members will have account shortages and will have reduced pensions on retirement if the shortages are not paid prior to retirement.

## Employer (City and County) Contribution Rates As a Percentage of Covered Payroll

| COVERED PERIOD                   | POLICE | FIREFIGHTER | MISCELLANEOUS |
|----------------------------------|--------|-------------|---------------|
| 1995-1996 (1st half)             | 14.79% | 12.44%      | 4.98%         |
| 1995-1996 (2nd half)             | 12.69% | 10.58%      | 4.29%         |
| 1996-1997 (1 <sup>st</sup> half) | 0%     | 0%          | 1.83%         |
| 1996-1997 (2 <sup>nd</sup> half) | 0%     | 0%          | 0%            |
| 1997-2000                        | 0%     | 0%          | 0%            |
| 2000-2001                        | 0%     | 0%          | 0%            |

Note: Rates of contribution are composite rates for Old and New groups.

## Employee Contribution Rates As a Percentage of Covered Payroll

| GROUP                | RATE OF CONTRIBUTION |
|----------------------|----------------------|
| Miscellaneous (Old)* | 7.50%                |
| Miscellaneous (New)  | 7.50%                |
| Police (Old)         | 7.00%                |
| Police (New)         | 7.50%                |
| Firefighter (Old)    | 7.00%                |
| Firefighter (New)    | 7.50%                |

\*Contributions for Old Plan Miscellaneous Employees (City Charter §A8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.



## SFERS Retirement Services

The following table summarizes some of the major activities of the SFERS Retirement Services Division during Plan Years 1999-2000 and 2000-2001:

| ACTIVITY                                         | 1999-2000 | 2000-2001 |
|--------------------------------------------------|-----------|-----------|
| Retirement Appointments                          | 1510      | 1662      |
| Retirement Applications Processed                | 769       | 861       |
| Personnel Transactions:                          | 4246      | 5031      |
| New Members (New Hires)                          | 1689      | 2113      |
| New Members (1040 hours membership)              | 899       | 776       |
| Rehires                                          | 186       | 217       |
| Promotions / Transfers                           | 1472      | 1585      |
| Fire Recruits                                    | 70        | 96        |
| Police Recruits                                  | 204       | 177       |
| Sheriff Recruits                                 | 10        | 67        |
| Visitors                                         | 15,932    | 17,275    |
| Mail (letters)                                   | 19,251    | 18,946    |
| Home Visits                                      | 10        | 17        |
| Group Presentations                              | 26        | 38        |
| Beneficiary Changes                              | 1320      | 1291      |
| Refund Packets                                   | 899       | 1894      |
| Verification of Pension or Benefit Data          | 432       | 303       |
| Electronic Fund Transfer (new and changes)       | 1759      | 2390      |
| Other activities (address changes, name changes, | 1857      | 2351      |

Retirement appointments increased 10.1% and retirement applications processed increased 12.0% in Plan Year 2000-2001 over the prior Plan Year.

Personnel transactions processed increased 18.5% in Plan Year 2000-2001 over the prior Plan Year. Promotions and transfers accounted for 31.5% of all personnel transactions processed in Plan Year 2000-2001.

SFERS Retirement Services Division staff sponsored and conducted 6 pre-retirement seminars during Plan Year 2000-2001, which provided individualized benefit counseling for over 1,000 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also participated in a retirement seminar sponsored by the Police Officers Association.

**SFERS Plan Member Communications:** During Plan Year 2000-2001, SFERS Retirement Services Division produced and distributed over 33,000 Annual Member Statements and SFERS Member Handbooks (Summary Plan Descriptions) to active SFERS members.



## SFERS Retirement Statistics for Plan Year Ended June 30, 2001

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2000-2001, as well as benefits payment summaries and comparisons:

### New Retirements Processed for Plan Year 2000-2001

| MEMBER GROUP   | SERVICE      | VESTING    | INDUSTRIAL DISABILITY | ORDINARY DISABILITY | TOTAL      |
|----------------|--------------|------------|-----------------------|---------------------|------------|
| Miscellaneous  | 482          | 168        | N/A                   | 55                  | 705        |
| Firefighter    | 32           | 0          | 18                    | 0                   | 50         |
| Police         | 64           | 1          | 9                     | 0                   | 74         |
| <b>TOTALS:</b> | <b>* 578</b> | <b>169</b> | <b>27</b>             | <b>55</b>           | <b>829</b> |

\*Total service retirements in Plan Year 2000-2001 includes applications for industrial or ordinary disability which have qualified for service retirement but are pending decision for disability application.

The total number of new retirements processed in Plan Year 2000-2001 was 21.6% higher than retirements processed in Plan Year 1999-2000. Service retirements represent 69.7% of the total of new retirements processed.

Miscellaneous retirements represented 85.0% of the total retirements processed in Plan Year 2000-2001, a decrease from 85.5% in Plan Year 1999-2000.

Firefighter retirements represented 6.0% of the total retirements processed in Plan Year 2000-2001, a decrease from 6.2% in Plan Year 1999-2000.

Police retirements represented 8.9% of the total retirements processed in Plan Year 2000-2001, an increase from 8.4% in Plan Year 1999-2000.



**Miscellaneous Plan Members**  
**Plan Year 2000-2001**  
**SERVICE CREDIT AT RETIREMENT**

| YEARS OF SERVICE | SERVICE RETIREMENTS | VESTING RETIREMENTS | ORDINARY DISABILITY | TOTAL         | PERCENT OF TOTAL |
|------------------|---------------------|---------------------|---------------------|---------------|------------------|
| 0-5              | 34                  | 26                  | 0                   | 60            | 8.5%             |
| 6-10             | 26                  | 83                  | 9                   | 118           | 16.7%            |
| 11-15            | 66                  | 35                  | 33                  | 134           | 19.0%            |
| 16-20            | 83                  | 18                  | 8                   | 109           | 15.5%            |
| 21-25            | 83                  | 5                   | 3                   | 91            | 12.9%            |
| 26-30            | 95                  | 1                   | 1                   | 91            | 13.8%            |
| 31-35            | 57                  | 5                   | 9                   | 91            | 8.2%             |
| 36-40            | 36                  | 5                   | 0                   | 36            | 5.1%             |
| Over 40          | 2                   | 0                   | 0                   | 2             | 0.3%             |
| <b>TOTAL</b>     | <b>482</b>          | <b>168</b>          | <b>55</b>           | <b>705</b>    | <b>100.0%</b>    |
| <b>PERCENT</b>   | <b>68.4%</b>        | <b>23.8%</b>        | <b>7.8%</b>         | <b>100.0%</b> |                  |

Approximately 73% of the total Miscellaneous Plan retirements had less than 26 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2000-2001 was 18 years.

Miscellaneous Plan service retirees were credited with an average of 22 years of service while those who retired for ordinary disability were credited with an average of 15 years of service.

**AGE AT RETIREMENT**

| AGE          | SERVICE    | VESTING    | ORDINARY DISABILITY | TOTAL      | PERCENT OF TOTAL |
|--------------|------------|------------|---------------------|------------|------------------|
| Under 55     | 50         | 80         | 42                  | 172        | 24.4%            |
| 55-60        | 167        | 51         | 13                  | 231        | 32.8%            |
| 61-65        | 189        | 21         | 0                   | 210        | 29.8%            |
| Over 65      | 76         | 16         | 0                   | 92         | 13.0%            |
| <b>TOTAL</b> | <b>482</b> | <b>168</b> | <b>55</b>           | <b>705</b> | <b>100.0%</b>    |

The average age of all Miscellaneous Plan members who retired in Plan Year 2000-2001 was 59 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 50 years.





**Police and Firefighter Plan Members**  
**Plan Year 2000-2001**  
**SERVICE CREDIT AT RETIREMENT**

| YEARS OF SERVICE | SERVICE RETIREMENTS | VESTING RETIREMENTS | INDUSTRIAL DISABILITY* | TOTAL       | PERCENT OF TOTAL |
|------------------|---------------------|---------------------|------------------------|-------------|------------------|
| 0-5              | 6                   | 0                   | 1                      | 7           | 5.6%             |
| 6-10             | 0                   | 0                   | 1                      | 1           | 0.8%             |
| 11-15            | 0                   | 0                   | 0                      | 1           | 0.8%             |
| 16-20            | 0                   | 0                   | 4                      | 5           | 4.0%             |
| 21-25            | 6                   | 0                   | 12                     | 6           | 4.8%             |
| 26-30            | 57                  | 0                   | 12                     | 69          | 55.6%            |
| 31-35            | 24                  | 0                   | 8                      | 32          | 25.8%            |
| 36-40            | 2                   | 0                   | 1                      | 3           | 2.4%             |
| Over 40          | 0                   | 0                   | 0                      | 0           | 0.0%             |
| <b>TOTAL</b>     | <b>96</b>           | <b>1</b>            | <b>27</b>              | <b>124</b>  | <b>100%</b>      |
| <b>PERCENT</b>   | <b>77.4%</b>        | <b>0.8%</b>         | <b>21.8%</b>           | <b>100%</b> |                  |

\* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2000-2001

Approximately 16% of the total Police and Firefighter Plan retirements had less than 26 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2000-2001 was 28 years.

Police and Firefighter Plan service retirees were credited with an average of 28 years of service while those who retired for industrial disability were credited with an average of 27 years of service.

**AGE AT RETIREMENT**

| AGE          | SERVICE   | VESTING  | INDUSTRIAL DISABILITY | TOTAL      | PERCENT OF TOTAL |
|--------------|-----------|----------|-----------------------|------------|------------------|
| Under 55     | 44        | 1        | 16                    | 61         | 49.2%            |
| 55-60        | 44        | 0        | 7                     | 51         | 41.1%            |
| 61-65        | 8         | 0        | 4                     | 12         | 9.7%             |
| Over 65      | 0         | 0        | 0                     | 0          | 0.0%             |
| <b>TOTAL</b> | <b>96</b> | <b>1</b> | <b>27</b>             | <b>122</b> | <b>100.0%</b>    |

The average age of all Police and Firefighter Plan members who retired in Plan Year 2000-2001 was 55 years.



**Total Retirement Allowances - 3 Year Comparison  
Retired Members and Survivor Continuation Benefits**

| MEMBER<br>CATEGORY      | SERVICE<br>RETIREMENTS | DISABILITY<br>RETIREMENTS* | DEATH IN<br>LINE OF<br>DUTY | TOTAL         |
|-------------------------|------------------------|----------------------------|-----------------------------|---------------|
| <b>As of 6/30/2001:</b> |                        |                            |                             |               |
| <b>MISCELLANEOUS</b>    | <b>12,352</b>          | <b>1,766</b>               | <b>33</b>                   | <b>14,151</b> |
| Member                  | 10,191                 | 1,235                      | -                           | 11,426        |
| Continuation            | 2,161                  | 531                        | 33                          | 2,725         |
| <b>FIREFIGHTER</b>      | <b>806</b>             | <b>870</b>                 | <b>50</b>                   | <b>1,726</b>  |
| Member                  | 553                    | 598                        | -                           | 1,151         |
| Continuation            | 253                    | 272                        | 50                          | 575           |
| <b>POLICE</b>           | <b>1,110</b>           | <b>777</b>                 | <b>50</b>                   | <b>1,939</b>  |
| Member                  | 826                    | 598                        | -                           | 1,333         |
| Continuation            | 283                    | 270                        | 52                          | 606           |
| <b>TOTAL</b>            | <b>14,268</b>          | <b>3,413</b>               | <b>135</b>                  | <b>17,816</b> |
| <b>As of 6/30/2000:</b> |                        |                            |                             |               |
| <b>MISCELLANEOUS</b>    | <b>11,239</b>          | <b>1,675</b>               | <b>-</b>                    | <b>12,914</b> |
| Member                  | 9,306                  | 1,199                      | -                           | 10,505        |
| Continuation            | 1,933                  | 476                        | -                           | 2,409         |
| <b>FIREFIGHTER</b>      | <b>776</b>             | <b>827</b>                 | <b>53</b>                   | <b>1,656</b>  |
| Member                  | 537                    | 582                        | -                           | 1,119         |
| Continuation            | 239                    | 245                        | 53                          | 537           |
| <b>POLICE</b>           | <b>1,048</b>           | <b>760</b>                 | <b>53</b>                   | <b>1,861</b>  |
| Member                  | 796                    | 598                        | -                           | 1,301         |
| Continuation            | 252                    | 255                        | 53                          | 560           |
| <b>TOTAL</b>            | <b>13,063</b>          | <b>3,262</b>               | <b>106</b>                  | <b>16,431</b> |
| <b>As of 6/30/1999:</b> |                        |                            |                             |               |
| <b>MISCELLANEOUS</b>    | <b>11,274</b>          | <b>1,701</b>               | <b>-</b>                    | <b>12,975</b> |
| Member                  | 9,163                  | 1,170                      | -                           | 10,333        |
| Continuation            | 2,111                  | 531                        | -                           | 2,642         |
| <b>FIREFIGHTER</b>      | <b>805</b>             | <b>818</b>                 | <b>59</b>                   | <b>1,682</b>  |
| Member                  | 553                    | 567                        | -                           | 1,120         |
| Continuation            | 252                    | 251                        | 59                          | 562           |
| <b>POLICE</b>           | <b>1,035</b>           | <b>769</b>                 | <b>57</b>                   | <b>1,861</b>  |
| Member                  | 770                    | 516                        | -                           | 1,286         |
| Continuation            | 265                    | 253                        | 57                          | 575           |
| <b>TOTAL</b>            | <b>13,101</b>          | <b>3,282</b>               | <b>116</b>                  | <b>16,518</b> |



**\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)**

**As of June 30, 2001, the total number of retirement allowances was 17,816, a 8.4% increase over retirement allowances from the previous Fiscal Year.**

**Allowances paid to retired members represented 78.1% of the total allowances paid; continuation allowances represented 21.9% of the total allowances paid.**



## Monthly Retirement Benefits Paid – 3 Year Comparison Retired Members and Survivor Continuation Benefits

| MEMBER<br>CATEGORY | SERVICE<br>RETIREMENTS | DISABILITY<br>RETIREMENTS* | DEATH IN<br>LINE OF<br>DUTY | TOTAL         |
|--------------------|------------------------|----------------------------|-----------------------------|---------------|
| As of 6/30/2001:   |                        |                            |                             |               |
| MISCELLANEOUS      | \$ 18,390,380          | \$ 2,023,204               | N/A                         | \$ 20,413,584 |
| FIREFIGHTER        | 2,790,553              | 2,995,169                  | \$ 120,845                  | 5,906,567     |
| POLICE             | 3,744,963              | 2,099,179                  | 138,761                     | 5,982,902     |
| TOTAL              | \$ 24,925,896          | \$ 7,117,552               | \$ 259,606                  | \$ 32,307,054 |
| As of 6/30/2000:   |                        |                            |                             |               |
| MISCELLANEOUS      | \$ 17,162,146          | \$ 2,050,079               | -                           | \$ 19,212,225 |
| FIREFIGHTER        | 2,524,446              | 2,714,965                  | \$ 121,887                  | 5,361,298     |
| POLICE             | 3,444,857              | 1,979,804                  | 143,661                     | 5,568,322     |
| TOTAL              | \$ 23,131,449          | \$ 6,744,848               | \$ 265,548                  | \$ 30,141,845 |
| As of 6/30/1999:   |                        |                            |                             |               |
| MISCELLANEOUS      | \$ 16,123,000          | \$ 1,843,331               | -                           | \$ 17,966,331 |
| FIREFIGHTER        | 2,435,779              | 2,367,244                  | \$ 117,480                  | 4,920,503     |
| POLICE             | 3,200,133              | 1,958,099                  | 138,177                     | 5,296,409     |
| TOTAL              | \$ 21,758,912          | \$ 6,168,674               | \$ 255,657                  | \$ 28,183,243 |

\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 63.2% of the total monthly retirement allowances paid during Plan Year 2000-2001.

Monthly retirement allowances paid to service retirees represented 77.2% of the total monthly retirement allowances and monthly disability benefits represented 22.0% of the total monthly retirement allowances paid during Plan Year 2000-2001.





## Death Benefits Paid – 3 Year Comparison

|                                                                                                                      | 1999-2000  | 1999-2000  | 1998-1999  |
|----------------------------------------------------------------------------------------------------------------------|------------|------------|------------|
| <b>NUMBER OF DEATHS:</b>                                                                                             |            |            |            |
| Active Members                                                                                                       | 77         | 72         | 53         |
| Retired Members                                                                                                      | 528        | 507        | 519        |
| Continuants                                                                                                          | 172        | 189        | 203        |
| <b>TOTAL</b>                                                                                                         | <b>777</b> | <b>768</b> | <b>775</b> |
| <b>DEATH BENEFITS PAID:</b>                                                                                          |            |            |            |
| <b>DUE TO ACTIVE MEMBER DEATHS</b>                                                                                   |            |            |            |
| Refund of Contributions                                                                                              | 77         | 65         | 30         |
| Industrial Death Allowances                                                                                          | 2          | 2          | 0          |
| 6 Months Earnable Salary                                                                                             | 74         | 61         | 30         |
| <b>SUBTOTAL</b>                                                                                                      | <b>153</b> | <b>128</b> | <b>60</b>  |
| <b>DUE TO RETIRED MEMBER DEATHS</b>                                                                                  |            |            |            |
| Continuation                                                                                                         | 231        | 229        | 246        |
| Option 1 (Refund of Member<br>Accumulated Contributions<br>\$100/Year for Each Year of<br>Service (Maximum \$3,000)) | 49         | 30         | 40         |
|                                                                                                                      | 522        | 482        | 492        |
| <b>SUBTOTAL</b>                                                                                                      | <b>802</b> | <b>741</b> | <b>778</b> |
| <b>TOTAL</b>                                                                                                         | <b>955</b> | <b>869</b> | <b>838</b> |

The number of deaths during Plan Year 2000-2001 increased by 1.2% from Plan Year 1999-2000.

There was a 19.5% increase in the number of benefits paid due to the death of active members in Plan Year 2000-2001 from the previous Plan Year. In Plan Year 2000-2001, the total number of death benefits payments processed due to the deaths of active and retired members increased 9.9% over the previous Plan Year.



## Withdrawal of Contributions – 3 Year Comparison

|                        | NUMBER      | PERCENT<br>VARIANCE<br>PRIOR YEAR | AMOUNT              | PERCENT<br>VARIANCE<br>PRIOR YEAR |
|------------------------|-------------|-----------------------------------|---------------------|-----------------------------------|
| <b>As of 6/30/2001</b> |             |                                   |                     |                                   |
| Miscellaneous          | 1334        |                                   | \$10,221,516        |                                   |
| Firefighter            | 13          |                                   | 223,032             |                                   |
| Police                 | 31          |                                   | 145,789             |                                   |
| Adjustments            | 0           |                                   | 0                   |                                   |
| <b>TOTAL</b>           | <b>1334</b> | <b>109.1%</b>                     | <b>\$10,590,337</b> | <b>50.5%</b>                      |
| <b>As of 6/30/2000</b> |             |                                   |                     |                                   |
| Miscellaneous          | 619         |                                   | \$6,772,457         |                                   |
| Firefighter            | 2           |                                   | 28,479              |                                   |
| Police                 | 17          |                                   | 237,398             |                                   |
| Adjustments            | 0           |                                   | 0                   |                                   |
| <b>TOTAL</b>           | <b>638</b>  | <b>18.4%</b>                      | <b>\$7,038,334</b>  | <b>39.0%</b>                      |
| <b>As of 6/30/1999</b> |             |                                   |                     |                                   |
| Miscellaneous          | 440         |                                   | \$4,739,632         |                                   |
| Firefighter            | 0           |                                   | 0                   |                                   |
| Police                 | 5           |                                   | 175,952             |                                   |
| Adjustments            | 94          |                                   | 146,423             |                                   |
| <b>TOTAL</b>           | <b>539</b>  | <b>5.3%</b>                       | <b>\$5,062,007</b>  | <b>20.2%</b>                      |

The number of Withdrawal of Contributions requests processed during Plan Year 2000-2001 increased primarily due to Retirement staff's increased efforts to settle long-inactive member accounts.



## Fiscal Division

### *Administering mandated benefit programs and providing promised benefits*

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information include:

- Net Assets held in trust for Pension Benefits
- Statement of Changes in Plan Net Assets
- Actuarial Report and Historical Information
- Disclosures as required by Governmental Accounting Standards Board (GASB)

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Systems and database maintenance
- Budgeting and appropriations control
- General ledger and reports

In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the employees' Retirement System is adequately funded at all times.

The accompanying audited statements of net assets available for pension benefits as of June 30, 2001, and 2000 and the related statements of changes in net assets held in trust for pension benefits are presented to provide information on the financial status of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2001. We encourage readers who may have questions regarding any of the financial information provided to request from SFERS the full set of audited *Financial Statements and Supplemental Schedule* as prepared by the independent auditors.



**SFERS Actual Expenditures – 3 Year Comparison  
Retirement Services/Administration Divisions**

| Description of Expenditures   | Retirement Services/Administration |                      |                     |
|-------------------------------|------------------------------------|----------------------|---------------------|
|                               | 2000-2001                          | 1999-2000            | 1998-1999           |
| Personnel Services            | \$ 3,906,243                       | \$ 3,718,816         | \$ 3,140,681        |
| Equipment Purchase            | 105,933                            | 447,082              | 386,326             |
| Materials and Supplies        | 49,831                             | 44,238               | 42,059              |
| Services of Other Departments | 5,978,896                          | 3,541,755            | 2,006,026           |
| Other Services                | 1,214,225                          | 2,530,965            | 785,538             |
| <b>TOTAL</b>                  | <b>\$ 11,255,128</b>               | <b>\$ 10,282,856</b> | <b>\$ 6,360,630</b> |

**SFERS Actual Expenditures – 3 Year Comparison  
Investment Division**

| Description of Expenditures   | Investment Division  |                      |                      |
|-------------------------------|----------------------|----------------------|----------------------|
|                               | 2000-2001            | 1999-2000            | 1998-1999            |
| Personnel Services            | \$ 1,328,812         | \$ 1,220,546         | \$ 1,048,667         |
| Equipment Purchase            | 39,431               | 93,727               | 15,363               |
| Materials and Supplies        | 12,557               | 14,837               | 5,022                |
| Services of Other Departments | 754,095              | 575,409              | 348,507              |
| Other Services                | 21,241,255           | 27,518,524           | 18,612,904           |
| <b>TOTAL</b>                  | <b>\$ 23,376,150</b> | <b>\$ 29,423,043</b> | <b>\$ 20,030,463</b> |

**SFERS Actual Expenditures – 3 Year Comparison  
All Divisions**

| Division                                     | 2000-2001            | 1999-2000            | 1998-1999            |
|----------------------------------------------|----------------------|----------------------|----------------------|
| Retirement Services/Administration Divisions | \$ 11,255,128        | \$ 10,282,856        | \$ 6,360,630         |
| Investment Division                          | 23,376,150           | 29,423,043           | 20,030,463           |
| <b>TOTAL</b>                                 | <b>\$ 34,631,278</b> | <b>\$ 39,705,899</b> | <b>\$ 26,391,093</b> |





# SFERS Pension Fund Income

Fiscal Year 2000-2001

|                                                 | REALIZED<br>GAIN/LOSS | UNREALIZED<br>GAIN/LOSS   | TOTAL                     |
|-------------------------------------------------|-----------------------|---------------------------|---------------------------|
| <b>INCOME</b>                                   |                       |                           |                           |
| City and County Contributions                   |                       |                           | \$ -                      |
| Employee Contributions                          |                       |                           | 145,203,047               |
| Interest Earned                                 |                       |                           | 243,188,945               |
| Dividends Earned                                |                       |                           | 65,121,941                |
| Securities Lending Income-Net                   |                       |                           | 13,693,151                |
| Dollar Roll Income - Net                        |                       |                           | (140,693)                 |
| Recaptured Commission Income - Net              |                       |                           | 403,625                   |
| Real Estate Income                              |                       |                           | 48,987,091                |
| Alternative Investment Income                   |                       |                           | (11,172,920)              |
| Investment Expenses                             |                       |                           | (23,838,661)              |
| <b>TOTAL INCOME:</b>                            |                       |                           | <b>\$ 481,445,526</b>     |
| <b>NET APPRECIATION IN FAIR VALUES</b>          |                       |                           |                           |
| Short-Term Securities                           | \$ 231,498            | \$ 2,111,133              | \$ 2,342,631              |
| Equities                                        | 95,344,547            | (1,386,628,882)           | (1,291,284,335)           |
| Debt Securities                                 | 82,550,335            | 3,949,023                 | 86,499,358                |
| Real Estate                                     | 6,261,684             | 9,422,354                 | 15,684,038                |
| Venture Capital                                 | 280,932,249           | (665,891,787)             | (384,959,538)             |
| Other Assets                                    | (105,128,490)         | (82,217,201)              | (187,345,691)             |
| <b>TOTAL NET APPRECIATION:</b>                  | <b>\$ 360,191,823</b> | <b>\$ (2,119,255,360)</b> | <b>\$ (1,759,063,537)</b> |
| <b>TOTAL INCOME including NET APPRECIATION:</b> | <b>\$ 360,191,823</b> | <b>\$ (2,119,255,360)</b> | <b>\$ (1,277,618,011)</b> |
| <b>Increase/(Decrease) From FY 1999-2000:</b>   |                       |                           | <b>\$ (3,714,910,310)</b> |



**SFERS Pension Fund Disbursements**  
**Plan Year 2000-2001**

| PAYMENTS/EXPENSES                                | AMOUNT                |
|--------------------------------------------------|-----------------------|
| Service Retirement Payments                      | \$ 280,668,311        |
| Disability Retirement Payments                   | 80,845,176            |
| Proposition C - Cost of Living Adjustment        | 14,871,183            |
| Death Allowance Payments                         | 3,603,765             |
| Death Benefits                                   | 2,126,404             |
| Normal Contributions Paid as Death Benefit       | 2,553,156             |
| Retired Annuitant Rolls (Option 1 Death Benefit) | 827,771               |
| Refunds of Contributions                         | 10,857,022            |
| Administrative Expenses                          | 11,255,129            |
| <b>TOTAL PAYMENTS &amp; EXPENSES:</b>            | <b>\$ 407,607,916</b> |
| <b>Increase/(Decrease) From FY 1999-2000:</b>    | <b>\$ 33,078,962</b>  |



## SFERS Contributions – 3 Year Comparison

### Employer (City and County) Contributions

| MEMBER PLAN        | PLAN YEAR<br>2000-2001 | PLAN YEAR<br>1999-2000 | PLAN YEAR<br>1998-1999 |
|--------------------|------------------------|------------------------|------------------------|
| Miscellaneous Plan | \$ -                   | \$ 217,636             | \$ 276,147             |
| Firefighter Plan   | -                      | -                      | -                      |
| Police Plan        | -                      | -                      | -                      |
| <b>TOTAL</b>       | <b>\$ -</b>            | <b>\$ 217,636</b>      | <b>\$ 276,147</b>      |

The employer contributions received on behalf of Miscellaneous Plan members during Plan Years 1998-1999 and 1999-2000 represent retroactive payments of City contributions attributable to pre-1997 Plan Year payrolls.

### Employee Contributions

| MEMBER PLAN        | PLAN YEAR<br>2000-2001 | PLAN YEAR<br>1999-2000 | PLAN YEAR<br>1998-1999 |
|--------------------|------------------------|------------------------|------------------------|
| Miscellaneous Plan | \$ 124,007,174         | \$ 113,030,434         | \$ 102,979,112         |
| Firefighter Plan   | 9,767,082              | 8,869,212              | 7,617,027              |
| Police Plan        | 11,428,791             | 10,643,622             | 9,978,659              |
| <b>TOTAL</b>       | <b>\$ 145,203,047</b>  | <b>\$ 132,543,268</b>  | <b>\$ 120,574,798</b>  |



SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM  
STATEMENTS OF PLAN NET ASSETS  
JUNE 30, 2001 AND 2000

Information derived from audited Financial Statements

| Assets                                                      | 2001           | 2000       |
|-------------------------------------------------------------|----------------|------------|
|                                                             | (in thousands) |            |
| Deposits                                                    | \$ 5,992       | \$ 6,354   |
| Contributions receivable – members                          | 7,880          | 7,245      |
| Investment income receivable:                               |                |            |
| Interest                                                    | 33,653         | 43,584     |
| Dividends                                                   | 3,322          | 4,003      |
| Securities lending                                          | 1,079          | 1,330      |
| Receivables from brokers, general partners, others          | 315,257        | 253,389    |
| Receivables under fixed coupon dollar repurchase agreements | —              | 98,992     |
| Investments at fair value:                                  |                |            |
| Short-term bills and notes                                  | 841,572        | 569,136    |
| Debt securities:                                            |                |            |
| U. S. government securities                                 | 1,381,595      | 1,166,277  |
| Other debt securities                                       | 2,020,457      | 1,892,562  |
| Equity securities                                           | 5,361,633      | 7,111,864  |
| Real estate                                                 | 875,015        | 551,299    |
| Venture capital                                             | 1,363,120      | 1,862,466  |
| Forward currency contracts, net                             | 8,323          | 5,134      |
| Investments in lending agents' short-term investment pool   | 1,574,089      | 1,836,360  |
| Total investments                                           | 13,425,804     | 14,995,098 |
| Total assets                                                | 13,792,987     | 15,409,995 |
| <hr/>                                                       |                |            |
| Liabilities                                                 |                |            |
| Payable to brokers                                          | 667,617        | 246,306    |
| Obligations under fixed coupon dollar repurchase agreements | 294,688        | 384,767    |
| Other liabilities                                           | 10,513         | 11,256     |
| Payable to borrowers of securities                          | 1,574,089      | 1,836,360  |
| Total liabilities                                           | 2,546,907      | 2,478,689  |
| Net assets held in trust for pension benefits               | 11,246,080     | 12,931,306 |





SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 STATEMENTS OF CHANGES IN PLAN NET ASSETS  
 YEARS ENDED JUNE 30, 2001 AND 2000  
 Information derived from audited Financial Statements

|                                                                             | 2001                 | 2000              |
|-----------------------------------------------------------------------------|----------------------|-------------------|
|                                                                             | (in thousands)       |                   |
| <b>Additions:</b>                                                           |                      |                   |
| Members' contributions                                                      |                      |                   |
| Miscellaneous                                                               | \$ 124,007           | \$ 113,248        |
| Firefighter                                                                 | 9,767                | 8,869             |
| Police                                                                      | 11,429               | 10,644            |
| Total contributions                                                         | <u>145,203</u>       | <u>132,761</u>    |
| Investment income (expenses):                                               |                      |                   |
| Interest                                                                    | 243,189              | 227,118           |
| Dividends                                                                   | 65,122               | 81,607            |
| Net (depreciation) appreciation in<br>fair value of investments             | (1,720,846)          | 2,011,790         |
| Securities lending income                                                   | 93,158               | 97,092            |
| Fixed coupon dollar repurchase<br>agreement income                          | 16,918               | 18,559            |
| Investment expenses                                                         | (23,839)             | (30,556)          |
| Securities lending borrower rebates<br>and expenses                         | (79,464)             | (84,241)          |
| Fixed coupon dollar repurchase<br>agreement finance charges<br>and expenses | <u>(17,059)</u>      | <u>(16,838)</u>   |
| Investment (loss) income, net                                               | <u>(1,422,821)</u>   | <u>2,304,531</u>  |
| Total (deductions) additions                                                | <u>(1,277,618)</u>   | <u>2,437,292</u>  |
| <b>Deductions:</b>                                                          |                      |                   |
| Benefits                                                                    | 385,496              | 356,961           |
| Refunds of contributions                                                    | 10,857               | 7,285             |
| Administrative expenses                                                     | <u>11,255</u>        | <u>10,282</u>     |
| Total deductions                                                            | <u>407,608</u>       | <u>374,528</u>    |
| Net (decrease) increase                                                     | (1,685,226)          | 2,062,764         |
| <b>Net assets held in trust for pension benefits:</b>                       |                      |                   |
| Beginning of year                                                           | <u>12,931,306</u>    | <u>10,868,542</u> |
| End of year                                                                 | <u>\$ 11,246,080</u> | <u>12,931,306</u> |



# Actuarial Summary

The Retirement System pays an array of benefits to members and their survivors – service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next fiscal year. The Plan valuation at the beginning of the fiscal year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2000 data. The results were first published in December 2000.

## Assumptions and Method

The main assumptions used to measure the System's liabilities for future benefits payments were:

|                                    |                                                            |
|------------------------------------|------------------------------------------------------------|
| Investment Returns                 | 8.25% per year                                             |
| Base Wage Increases                | 4.50% per year                                             |
| Merit and Promotion Wage Increases | 1.3%, approximately (varies by group and years of service) |
| Retiree Mortality                  | 1983 Group Annuity Mortality Table                         |

The actuarial funding method used was as follows:

- ◆ entry age normal cost method
- ◆ unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- ◆ unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.



## Key Results

Using the method and assumptions detailed above, the key findings of the latest valuation were:

### FUNDED STATUS

|                                         |                       |
|-----------------------------------------|-----------------------|
| Actuarial Liability                     | \$ 7,258,394,000      |
| Actuarial Value of Assets               | <u>10,076,469,000</u> |
| Unfunded Liability (Surplus)            | \$ <2,818,075,000>    |
| Funded Status<br>(assets / liabilities) | 138.83%               |

### EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates to be paid by the City in Fiscal Year 2001-2002 were derived from the following actuarial valuation results:

|                                       | POLICE   | FIRE     | MISC.   | TOTAL    |
|---------------------------------------|----------|----------|---------|----------|
| Normal Cost                           | 18.81%   | 19.66%   | 13.17%  | 14.12%   |
| Unfunded Liability & Other Costs      | (49.12)% | (56.73)% | (6.40)% | (13.65)% |
| Employee Contributions                | 7.42%    | 7.37%    | 7.55%   | 7.53%    |
| City Contribution Rate                | (37.73)% | (44.44)% | (0.78)% | (7.06)%  |
| Board Approved City Contribution Rate | 0.0%     | 0.0%     | 0.0%    | 0.0%     |



## ADDITIONAL DETAILS

Based on the method and assumptions stated on the previous pages, the basic findings of the latest valuation were:

### Actuarial Valuation Results As of June 30, 2000

|                           | POLICE           | FIREFIGHTER      | MISCELLANEOUS      | TOTAL             |
|---------------------------|------------------|------------------|--------------------|-------------------|
| Active Members            | 2,188            | 1,741            | 25,998             | 29,927            |
| Annual Salaries           | \$ 151,952,000   | \$ 119,644,000   | \$ 1,455,531,000   | \$ 1,727,127,040  |
| Average Salary            | \$ 69,448        | \$ 68,721        | \$ 55,986          | \$ 57,711         |
|                           |                  |                  |                    |                   |
| Retired Members           | 1,937            | 1,731            | 14,396             | 18,064            |
| Annual Benefits           | \$ 67,949,000    | \$ 64,563,000    | \$ 246,165,000     | \$ 378,677,000    |
| Average Benefit           | \$ 35,080        | \$ 37,298        | \$ 17,100          | \$ 20,963         |
|                           |                  |                  |                    |                   |
| Actuarial Liability       | \$1,302,817,000  | \$ 1,052,290,000 | \$ 4,903,287,000   | \$ 7,258,394,000  |
| Actuarial Value of Assets | \$ 2,175,899,000 | \$ 1,847,957,000 | \$ 6,052,613,000   | \$10,076,469,000  |
| Unfunded Liability        | \$ (873,082,000) | \$ (795,667,000) | \$ (1,149,326,000) | \$(2,818,075,000) |
| Funded Status             | 167.01%          | 175.61%          | 123.44%            | 138.83%           |
|                           |                  |                  |                    |                   |
| CONTRIBUTIONS RATES:      |                  |                  |                    |                   |
| Normal Cost               | 18.81%           | 19.66%           | 13.17%             | 14.12%            |
| + Unfunded Liability      | (49.57)%         | (57.18)%         | (6.85)%            | (14.10)%          |
| Total:                    | (30.76)%         | (37.52)%         | 6.32%              | (0.02)%           |
| - Employee Contribution   | 7.42%            | 7.37%            | 7.55%              | 7.53%             |
| + Administrative Expenses | 0.45%            | 0.45%            | 0.45%              | 0.45%             |
| City and County Rate      | (37.73)%         | (44.44)%         | (0.78)%            | (7.06)%           |





# Towers Perrin

---

December 5, 2000

Retirement Board of the San Francisco  
City and County Employees' Retirement System  
30 Van Ness Avenue, Suite 3000  
San Francisco, CA 94102

Dear Honorable Members:

Enclosed is the actuarial valuation of the Retirement System as of July 1, 2000. The report contains recommended City contribution rates for the Fiscal Year commencing July 1, 2001.

This report is based on information provided to us by the System's staff and on draft audited financial statements of the System.

This valuation has been conducted in accordance with generally accepted actuarial principles and financial accounting practices. The actuarial assumptions used in the development of the recommended contribution level have been selected by the Retirement Board, with the concurrence of Towers Perrin, to be individually reasonable (taking into account the experience of the plan and reasonable expectations) and, in combination, offer the actuary's best estimate of anticipated experience under the plan.

We look forward to discussing the valuation results with the Board on December 12, 2000.

Sincerely,



LPF:om

Enclosures







City and County of San Francisco



San Francisco City and County  
Employees' Retirement System  
Office of The Executive Director

February 20, 2003

San Francisco Public Library  
100 Larkin Street  
San Francisco, CA 94102

Subject: San Francisco Employees' Retirement System  
Annual Report

To Whom It May Concern,

Please find enclosed two copies of the San Francisco Employees' Retirement System's Annual Report for the Fiscal year ending June 30, 2002.

We shall be posting the Annual Report on our website in the near future in accordance with the recently adopted Board of Supervisors Ordinance 14-03, amending Administrative Code Section 1.56 and 8.16 to require posting of Annual Reports on City's website.

Sincerely,

A handwritten signature in blue ink, appearing to read "Shauna Marie Rose".

Shauna Marie Rose  
Executive Assistant

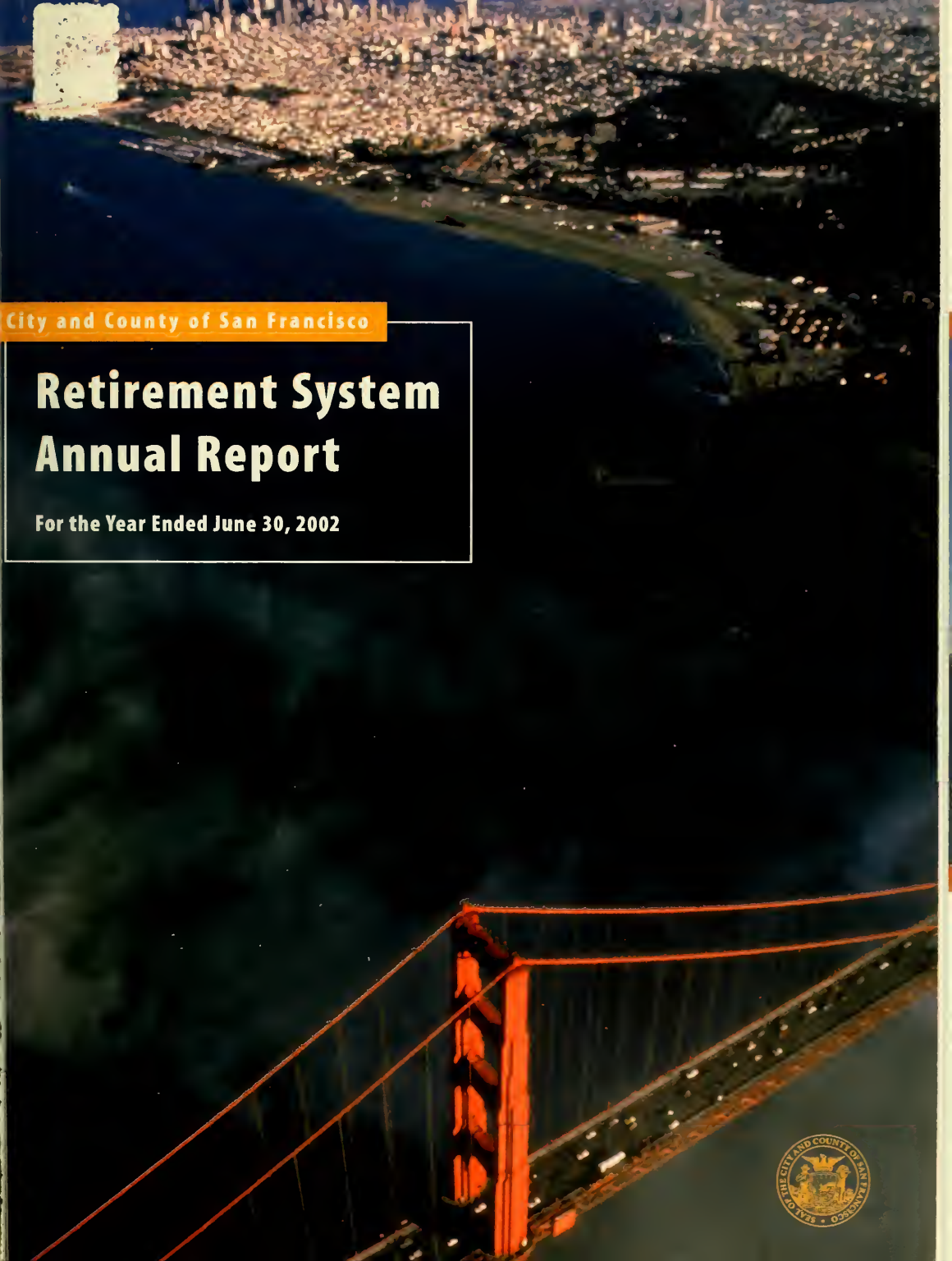
Enclosure

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City and County of San Francisco

# Retirement System Annual Report

For the Year Ended June 30, 2002







# **City and County of San Francisco Employees' Retirement System**

## ***MISSION STATEMENT***

*San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits*

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**Annual Report  
For Fiscal Year Ended June 30, 2002**



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## President's Message

### INVESTING ASSETS • PROVIDING BENEFITS • SERVING MEMBERS

December, 2002

On behalf of the Retirement Board and Retirement System staff, I present the Annual Report for Fiscal Year 2001-2002. The report offers information on the members and beneficiaries of the Retirement System's Plans, the retirement services provided, and the investments of the Trust Fund's assets.

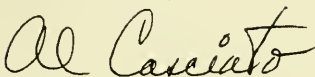
Fiscal Year 2001-2002 was a challenging year for the investment community. The losses suffered in the financial markets adversely impacted many pension plans. Fortunately, here in San Francisco, due to the wisdom and insight of our forefathers, the Retirement Fund remained safe and sound. The diversified portfolio cushioned the large declines in value in both U.S. and International stocks. Over the last five years the SFERS Investment portfolio has performed in the top quartile of public pension plans. The Trust Fund remained over-funded and thus required no City contributions. Our employees and retirees continue to receive enhancements and protections for the plan's retirees and beneficiaries.

As a defined benefit plan, San Francisco's Retirement Plan provides tremendous security for its members compared to a defined contribution plan, where asset values and benefits fluctuate with the market and shortfalls are borne by the participant, not the sponsor. Our retirees and beneficiaries continue to receive their promised pensions and regular COLAs; however, because of market fluctuations, the supplemental COLA, which is paid from excess earnings, cannot be funded for the year beginning July 1, 2003.

On behalf of our Board and staff, I assure you that we will continue to make every effort to administer retirement benefits effectively and efficiently and to invest the Trust Fund assets for maximum return consistent with safety and prudence.

If you would like more information on the Retirement System or would like to provide input on any part of our operations, please feel free to contact any commissioner or member of our staff.

With best wishes,



Al Casciato, President  
Retirement Board



# **The Retirement System**

The San Francisco Employee's Retirement System was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS § 457 plan.

Each of these benefit plans is mandated by specific San Francisco City Charter sections and/or Administrative Code provisions.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS § 457 Plan, provides participants a tax-deferred method of deferring part of their salary during employment for distribution after retirement.

## **The Retirement Board**

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets twice each month and reviews and approves important elements of Retirement System business, including:

## **Pension Fund Investment**

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

## **Actuarial Funding**

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

## **Active and Retired Members**

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost-of-living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.





## Administration and Management

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

### Members of the 2001-2002 SFERS Retirement Board

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

|                                                                   |                                   |
|-------------------------------------------------------------------|-----------------------------------|
| Al Casciato<br>Lieutenant, Police Department                      | Elected Member<br>February 2005   |
| Joseph D. Driscoll, C.F.A.<br>Lieutenant, Fire Department         | Elected Member<br>February 2006   |
| Herb Meiberger, C.F.A.<br>Security Analyst, Retirement Department | Elected Member<br>February 2007   |
| William Breall, M.D.<br>Cardiologist                              | Appointed Member<br>February 2004 |
| Brenda Wright<br>Regional Manager, Financial Services             | Appointed Member<br>February 2003 |
| Patricia E. Martel<br>Public Administrator                        | Appointed Member<br>February 2004 |
| Jake McGoldrick<br>Member, Board of Supervisors                   | Ex-Officio Member<br>January 2003 |



## **SFERS Senior Administrative Staff**

### **Administration:**

|                 |                     |
|-----------------|---------------------|
| Clare M. Murphy | Executive Director  |
| Jay Huish       | Deputy Director     |
| Kay Gulbengay   | Executive Assistant |

### **Investment Division:**

|                                          |                                |
|------------------------------------------|--------------------------------|
| David Kushner, C.F.A.                    | Deputy Director of Investments |
| Carl Wilberg<br>Equities                 | Senior Investment Officer      |
| Richard Piket<br>Fixed Income            | Senior Investment Officer      |
| Glen Schwartz<br>Alternative Investments | Senior Investment Officer      |
| Donald Holcher<br>Real Estate            | Senior Investment Officer      |

### **Retirement Services Division:**

|               |                          |
|---------------|--------------------------|
| Maria Newport | Retirement Administrator |
|---------------|--------------------------|

### **Fiscal Division:**

|         |                  |
|---------|------------------|
| Les Win | Chief Accountant |
|---------|------------------|

### **Actuary Division:**

|                       |                                           |
|-----------------------|-------------------------------------------|
| Kieran Murphy, A.S.A. | Actuary<br>July 1, 2001-December 14, 2001 |
| Vacant                | December 15, 2001-June 30, 2002           |



## Highlights of Retirement Board Activities for Fiscal Year 2001-2002

The SFERS Retirement Board conducted 14 meetings and addressed several significant issues during the 2001-2002 Fiscal Year.

### General Administrative Highlights

During the 2001-2002 Fiscal Year the Retirement Board continued its policy development efforts in addition to the traditional oversight covering benefits and investment activities of the Plan.

At the beginning of the Fiscal Year the Board reviewed recommendations and findings for the actuary succession plan. In November, it reviewed the economic actuarial assumptions including investment yield, wage inflation and inflation as measured by the Consumer Price Index.

In October of 2001, the Retirement Board welcomed the new Deputy Director for Investments, David Kushner, to administer the Retirement System investments.

Due to the growing complexities of the System, the Board established a formal Business Planning Policy to ensure the Board adequately plans for the future needs of the System. It also approved a Board Education Policy so that Board members can fulfill its fiduciary duties by acquiring the level of knowledge and facets for the Plan to make prudent policy determinations. The plan serves as a guide to raise awareness among prospective trustees of the importance of fiduciary education. The Board adopted four additional policies in April of 2002:

- Board Development Policy
- Monitoring and Reporting Policy
- Executive Director's Evaluation Policy
- Service Provider Policy

Throughout the Fiscal Year, the Board received reports and studies on the issue of credited interest rate. Reports included statistical data to understand the potential effect by a change in the plan credited interest rate and the liability impact of increasing the credited interest rate. The Board considered this issue throughout the Fiscal Year at several of its meetings and at the close of the Fiscal Year was contemplating making a determination at its July 2002 meeting in accordance with the newly revised San Francisco Administrative Code Section 16.37-1.



In October 2001, the Board approved procedures for purchase of retirement system credit for representative service in an effort to afford its members the most equitable calculation of compensation based on the applicable memorandum of understanding provisions.

The Retirement Board monitored two class action type lawsuits, which allege that the Retirement System should include additional "pay types" in pension calculations, the Mason case concerns the miscellaneous plan members and the Adams case pertains to safety members. The Retirement System has received a trial court judgment in its favor in Mason. Mason is now on appeal.

In March of 2002, a new lawsuit was filed against the Retirement System by the Veteran Police Officers Association (the "VPOA"). VPOA is asking that Police Officer Standard Training (POST) pay be included in the pensions of those retirees who had POST certificates (but not necessarily the POST rank) when they retired.

The Mason, Adams and VPOA cases are being vigorously contested. The City Attorney has associated outside counsel to help defend these claims.

The Board also considered and approved a change in its meeting dates (Retirement Rule 2.01) and established the first Tuesday of each month at 12:30 p.m. as its regular meeting date.

The annual budget was reviewed and approved in February 2002 for the upcoming Fiscal Year.

In March of 2002, the Retirement Board held its annual election of officers, and Mr. Al "Crocce" Casciato was elected President and Pat Martel as Vice-President.

In November of 2001, the Board approved a request for proposal for a fiduciary counsel and outside legal services to protect the San Francisco Employees' Retirement System and its fund. The outside counsel list was approved at its July 2002 meeting. The Board also reviewed the roles and rights of Board members to make public presentations in opposition to Retirement Board positions.

The Board reviewed the annual Cost of Living Adjustment (COLA) and approved a recommendation to pay the full 2% basic COLA as directed by Charter Section 8.526. Further, the Board reviewed the Supplemental COLA provisions in light of the passage of Proposition B in November 2001. Proposition B secured as permanent benefits all supplemental COLA's payable as of June 30, 2003. The Board was not able to create a reserve for additional supplemental COLA's for July 1, 2003 due to performance of the plan.





At its meeting of December 2001, the Retirement Board retained the law firm of Milberg Weiss, LLC to work with the City Attorney's office to join in the securities litigation against Enron as an active plaintiff. The Retirement Board has long recognized its fiduciary duty to recoup monies when investment losses are caused by fraud. Depending on the facts of a particular case, there are several options for the Retirement Board to consider in discharging this responsibility.

## **Deferred Compensation Program**

The Board reviewed reports from the ING Financial Advisors LLC on the San Francisco Deferred Compensation (457) Plan and received a plan overview, investment options analysis, and updates on California Tax Conformity with Economic Growth Tax Relief Reconciliation Act (EGTRAA) and updates on the ING integration process.

The Board also reviewed the investment performance analysis for the Deferred Compensation plan and reviewed a list of investment options for the year ending December 31, 2001. The Board discussed the possibility of adding "lifestyle" type funds.

In June of 2002, the Board approved amendments to the San Francisco Deferred Compensation (457) Plan Document which were necessitated by the passage of income tax conformity provisions bringing California tax law into alignment with Federal (EGTRAA) changes. These changes allowed significant increases in deferral limits, inservice transfer of Deferred Compensation Plan assets for purchase of qualified pension credits, and enhanced catch-up provisions.

The Retirement Board concluded litigation to recover certain charges that were imposed by the Hartford Life Insurance Company when Hartford was replaced as the administrator of the City's Deferred Compensation Plan. Approximately \$1.4 million was recovered, which was directed to ING Aetna, the current San Francisco Deferred Compensation administrator to offset recovery fees charged the Deferred Compensation Plan participants.



## **Investment Highlights**

Throughout the Fiscal Year the Retirement Board reviewed the performance of the Trust Fund and the performance and adherence to guidelines by individual managers. The Investment Division conducted searches for the Fund's General and Real Estate consultants, culminating in the reaffirmation of Angeles Investment Advisors as the General Consultant and The Townsend Group as the Real Estate consultant. Additionally during the Fiscal Year ended June 30, 2002, the Retirement Board adopted a new Manager Monitoring and Retention Policy. Finally, given the volatility of the capital markets, the Investment Division initiated a full Asset Liability/Asset Allocation study, which was under way at the close of the Fiscal Year.

The following is a summary of the investment activity that the Retirement Board and staff accomplished during Fiscal Year 2001-2002, organized by the major segments of the capital markets:

### **Equity**

During the course of Fiscal 2002, Paradigm Asset Management and J.P. Morgan Investment Management were terminated. The funds from Paradigm were set aside to use for payment of benefits and fund expenses, while the funds from J.P. Morgan were invested in the S&P 500 Index Fund pending completion of the Asset Allocation study. Additionally, funds were shifted between managers as assets were reallocated within and between the sub-asset classes comprising the equity portion of the total fund.

Throughout the course of the Fiscal Year the equity staff also reviewed various investment strategies for possible inclusion at later dates.

### **Fixed Income**

During the Fiscal Year ended June 30, 2002, the success of the Emerging Markets Debt (EMD) portfolio prompted the Retirement Board to retain Ashmore Investment Management as a second EMD manager responsible for a \$75 million portfolio of Local Currency Short Duration EMD.

A major highlight for the Fiscal Year was the completion of a third commercial mortgage whole loan securitization in April of 2002. This process involves converting commercial loans originated by a specialized fixed income manager into securities that are sold in the public markets at a premium to the original cost of the loans. The proceeds of this sale are then reinvested in new commercial loans so that the process can be repeated. The Retirement System is one of only a few Public Funds that engage in this activity and SFERS participation in two prior securitizations has resulted in returns in excess of 10% for this portfolio over the past several years. This latest securitization transaction is expected to produce similar results.

### **Real Estate**

For the Fiscal Year ended June 30, 2002 the real estate portfolio had a one-year return net of managers' fees of 6.8%. The three-year return was 10.1% compared to the benchmark of 9.6% as reported by NACREF in their National Property Index ("NPI"). The 5-year return was 11.7%, which compares favorably to the NPI of 11.7%. The Trust Fund's real estate consultant provided these returns.



As of June 30, 2002, the real estate market value and unfunded commitments total \$1,102 million, which is 10.5% of Plan Assets.

The biggest challenge facing real estate is the lack of demand following an economic slow down. Vacancies nationally are high and rents have dropped. Market conditions are weak and will see additional deterioration until the end of 2003. SFERS real estate portfolio is well positioned to withstand the decline in fundamentals and should perform at or close to the NPI for the next year.

## Alternative Investments

The Retirement Board reviewed staff commitments made under approved delegated authority in Fiscal Year 2001-2002, which resulted in participation by SFERS in the following new partnerships:

### New Limited Partnerships in Fiscal Year

| Partnership                          | Fund Type                    |
|--------------------------------------|------------------------------|
| Lexington Capital Partners V, L.P.   | Secondary Purchaser of Funds |
| OCM Opportunities Fund IV-B, L.P.    | Distressed Debt              |
| Blackstone Capital Partners IV, L.P. | U.S. Private Equity          |

Compared with previous years, these three investments of \$90 million reflect a significant reduction in new commitments due to allocation constraints. These investments continue the Retirement Board's strategy to diversify the portfolio, and enhance the returns of the Trust.

## SFERS Administration

### *Administering mandated benefit programs and providing promised benefits*

#### Actuarial Services

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System.

#### Deferred Compensation

The following pages provide detailed statistical information related to the City's Deferred Compensation Plan and SFERS Disability Application Processing for Fiscal Year 2001-2002.



**CITY AND COUNTY OF SAN FRANCISCO 457 PLAN**  
**DEFERRED COMPENSATION: CHANGES IN PLAN VALUES**  
**ING Financial Advisors LLC**  
**06/30/01 – 06/30/02**

| <b>Fund Name</b>                                               | <b>Assets<br/>as of<br/>06/30/2001</b> | <b>Assets<br/>as of<br/>06/30/2002</b> | <b>Percent<br/>Change</b> |
|----------------------------------------------------------------|----------------------------------------|----------------------------------------|---------------------------|
| ING Fixed Account - 457/401                                    | \$250,876,275                          | \$302,309,124                          | 21%                       |
| Janus Twenty Fund                                              | \$120,863,104                          | \$84,638,874                           | -30%                      |
| ING T. Rowe Price Growth Equity Portfolio -<br>Initial Class   | \$89,740,829                           | \$70,508,279                           | -21%                      |
| ING VP Balanced Portfolio Inc. - Class R                       | \$73,016,307                           | \$66,472,543                           | -9%                       |
| AIM V.I. Capital Appreciation Fund – Series I<br>Shares        | \$80,501,517                           | \$61,554,129                           | -24%                      |
| Janus Aspen Series Worldwide Growth Portfolio –<br>Inst Shares | \$52,962,663                           | \$41,119,241                           | -22%                      |
| ING VP Index Plus LargeCap Portfolio – Class R                 | \$44,796,467                           | \$38,400,122                           | -14%                      |
| Janus Aspen Series Balanced Portfolio – Inst<br>Shares         | \$35,056,262                           | \$35,980,872                           | 3%                        |
| Ariel Fund                                                     | \$13,208,176                           | \$27,911,636                           | 111%                      |
| ING VP Bond Portfolio - Class R                                | \$16,293,825                           | \$21,386,845                           | 31%                       |
| ING VP Money Market Portfolio - Class R                        | \$22,727,435                           | \$20,645,231                           | -9%                       |
| ING VP Value Opportunity Portfolio – Class R                   | \$14,026,623                           | \$13,288,713                           | -5%                       |
| ING Scudder International Growth Portfolio -<br>Initial Class  | \$12,745,619                           | \$11,605,312                           | -9%                       |
| ING VP Growth Portfolio - Class R                              | \$12,378,001                           | \$9,594,343                            | -22%                      |
| Calvert Social Balanced Portfolio                              | \$7,809,602                            | \$7,247,427                            | -7%                       |
| AIM V.I. Growth Fund - Series I Shares                         | \$9,641,409                            | \$6,533,606                            | -32%                      |
| Janus Aspen Series Flexible Income Portfolio -<br>Inst Shares  | \$4,403,793                            | \$6,068,331                            | 38%                       |
| ING VP Small Company Portfolio - Class R                       | \$3,574,110                            | \$5,450,171                            | 52%                       |
| Citizens Emerging Growth Fund® -<br>Administrative Shares      | \$2,480,311                            | \$3,553,324                            | 43%                       |
| ING VP International Equity Portfolio – Class R                | \$3,722,917                            | \$3,054,244                            | -18%                      |
| ING Ultimate Account                                           | \$7,038,100                            | \$5,316,722                            | -24%                      |
| <b>Total</b>                                                   | <b>\$877,863,352</b>                   | <b>\$842,639,097</b>                   | <b>-4%</b>                |

Number of Active Participants: 21,171  
Retirees Receiving Benefits from Hartford: 649  
Retirees Receiving Benefits from ING: 2,360

Total Retiree Assets: \$204,818,159



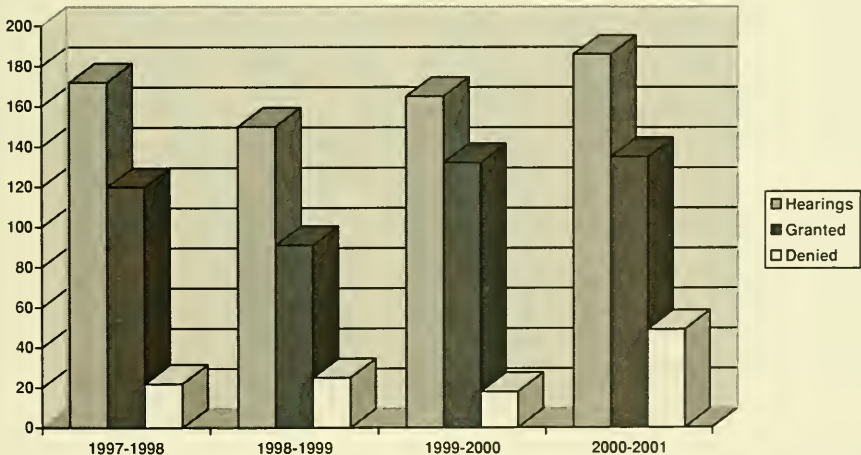


## Hearing Officer Report Fiscal Year Ended June 30, 2002

| CASES                                | TOTAL<br>NO. OF<br>HEARINGS | TOTAL<br>NO.<br>GRANTED | TOTAL<br>NO.<br>DENIED |
|--------------------------------------|-----------------------------|-------------------------|------------------------|
| Industrial Disability Retirements    | 54                          | 45                      | 13                     |
| Ordinary Disability Retirements      | 107                         | 86                      | 13                     |
| Industrial Disability Determinations | 3                           | 0                       | 1                      |
| Death Benefits                       | 4                           | 2                       | 0                      |
| Petitions for Rehearing              | 0                           | 0                       | 11                     |
| PERS                                 | 6                           | 3                       | 1                      |
| Reinstatements                       | 1                           | 2                       | 1                      |
| <b>TOTAL</b>                         | <b>175*</b>                 | <b>138</b>              | <b>40</b>              |

*\* The number of hearings does not equal number of decisions because many decisions are held over from the previous year due to the time required in the preparation of cases for disability hearings and are not reported.*

## Hearing Officer Report Four-Year Comparison





## Investment Division

### *Dedicated to securing, protecting and prudently investing the pension trust assets*

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the seventy years since its inception. The Retirement System's goal, however, has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2002, approximately 20.99% of SFERS trust assets were managed internally, including \$854 million in domestic bonds and \$ 1.3 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including global and domestic fixed income, international and domestic equities, real estate and alternative investments.

### **Investment Highlights for Fiscal Year Ended June 30, 2001**

For the Fiscal Year ended June 30, 2002, the Investment portfolio of the Retirement System experienced the effects of a turbulent year in the capital markets. Corporate scandals at Enron, Worldcom, Tyco and others created concerns with investors as to the viability of corporate financial statements, causing a lack of confidence in the valuation underpinnings of the equity markets. A weak economy combined with shifts from the volatile equity markets to the "safe haven" of fixed income instruments combined to lower interest rates to levels not seen in over thirty years. With the exception of Real Estate and Non-U.S. Equity, which underperformed their benchmarks modestly, all asset classes within the fund outperformed their respective benchmarks. As a result, the total Fund experienced a total rate of return of -4.5% for the Fiscal Year versus the SFERS weighted policy benchmark of -5.23%.

Within asset classes the combined U.S. Equity portfolio returned -13.3% versus a Russell 3000 benchmark of -17.2% while the non-U.S. Equity composite declined by -9.4% versus the international benchmark return of -8.2%. Private Equity, as represented by the Alternative Asset portfolio also reported a -11.85% return for the year compared with its benchmark's return of -11.99% (S & P 500 Index + 6%). Offsetting these negative returns were an 8.06% return on the total Fixed Income portfolio versus the Lehman Aggregate benchmark of 7.72% and a 5.77% return on Real Estate versus a NCREIF benchmark of 6.54%.

While the investment returns for the past Fiscal Year were disappointing, on a longer term basis the investment performance for SFERS has been very strong on both an absolute and relative basis as shown in the table on the next page. As of June 30, 2002, the Fund ranked above the first quartile among Public Funds greater than \$1 Billion in size for the one-year and three-year periods. For the five-year period, the Fund ranked in the top fifth percentile. At the quarter end, the universe had 29 Public Funds over \$1 Billion.



## Investment Portfolio Performance

### Annualized Returns for the Periods ending 6/30/2002

|                                                           | One Year                       | 3 Years                       | 5 Years                      |
|-----------------------------------------------------------|--------------------------------|-------------------------------|------------------------------|
| Domestic Equity<br>(benchmark: Russell 3000)              | -13.3%<br>-17.24%              | -5.94%<br>-7.92%              | 4.55%<br>3.84%               |
| International Equity<br>(benchmark: MSCI ACWI Free ex US) | -9.43%<br>-8.16%               | -3.46%<br>-6.16%              | 1.53%<br>-1.70%              |
| Domestic Fixed Income<br>(benchmark: Lehman Universal)    | 8.29%<br>7.72%                 | 7.89%<br>7.67%                | 7.62%<br>7.31%               |
| Global Fixed Income<br>(benchmark: Lehman Global)         | 7.39%<br>6.45%                 | 7.41%<br>4.80%                | 4.79%<br>4.57%               |
| Real Estate<br>(benchmark: NCREIF)                        | 5.77%<br>6.54%                 | 9.12%<br>9.95%                | 12.74%<br>12.02%             |
| Alternative Assets<br>(benchmark: S&P + 6%)               | -11.85%<br>-11.99%             | 14.42%<br>-3.18%              | 17.86%<br>9.66%              |
| <b>TOTAL Fund</b><br>(weighted policy benchmark)          | <b>-4.50%</b><br><b>-5.97%</b> | <b>1.73%</b><br><b>-1.13%</b> | <b>6.55%</b><br><b>4.17%</b> |

Source: The Northern Trust Company

**SFERS Percentile Ranking within  
Public Funds Greater than \$1Billion  
Master Trust Fund TUCS Universe**

**28<sup>th</sup>**

**9<sup>th</sup>**

**6<sup>th</sup>**

The following pages contain charts illustrating:

Asset Allocation as of June 30, 2002

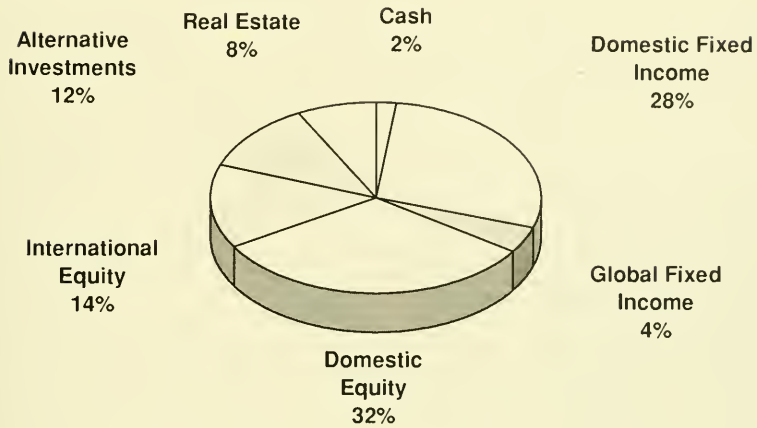
Pension Fund Net Assets

Investment Earnings and Assets

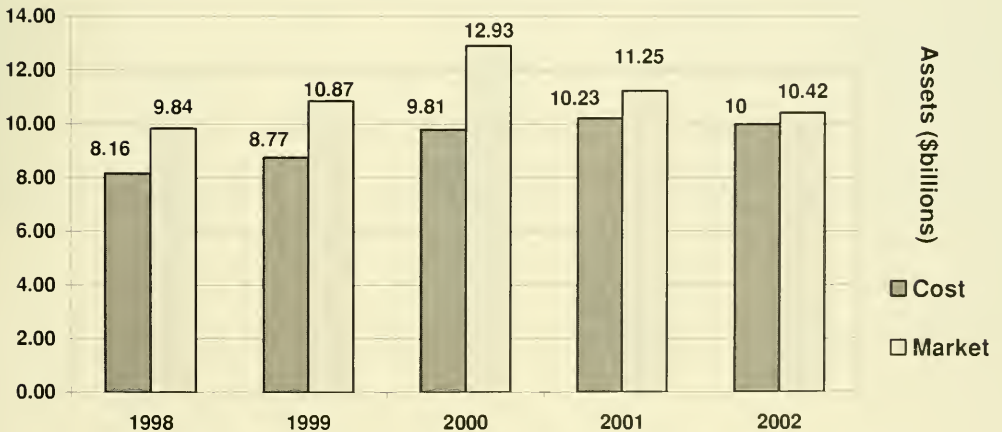
Summary of Assets as of June 30, 2002



## ASSET ALLOCATION AS OF JUNE 30, 2002 - MARKET VALUE



## PENSION FUND NET ASSETS







# INVESTMENT EARNINGS AND ASSETS THREE YEAR HISTORY

| Fiscal Year Ended June 30:                  | 2002                    | 2001                     | 2000                    |
|---------------------------------------------|-------------------------|--------------------------|-------------------------|
| <b><u>Investment Earnings</u></b>           |                         |                          |                         |
| Interest Income                             | \$224,561,374           | \$256,017,416            | \$240,671,062           |
| Equity Dividend Income                      | 63,875,140              | 65,121,941               | 81,606,794              |
| Real Estate Income                          | 48,951,277              | 48,987,091               | 29,374,957              |
| Alternative Investment Income               | (6,686,655)             | (11,172,920)             | 27,397,257              |
| Realized Gains/(Loss)                       | (324,762,200)           | 360,191,823              | 901,411,122             |
| Unrealized Gains/(Loss)                     | (539,134,907)           | (2,119,255,360)          | 1,052,962,749           |
| <b><u>Total Investment Earnings</u></b>     | <b>(\$533,195,971)</b>  | <b>(\$1,400,110,009)</b> | <b>\$2,333,423,941</b>  |
| <b><u>Portfolio Assets - Fair Value</u></b> |                         |                          |                         |
| Fixed Income                                | \$3,374,601,919         | \$3,402,051,535          | \$3,058,839,025         |
| Equities                                    | 4,796,110,459           | 5,361,633,163            | 7,111,864,028           |
| Real Estate                                 | 820,844,105             | 875,014,860              | 551,299,038             |
| Alternative Investments                     | 1,218,142,257           | 1,363,120,151            | 1,862,466,346           |
| Money Market Assets                         | 203,444,843             | 244,519,844              | 345,981,126             |
| <b><u>Total Fair Value of Portfolio</u></b> | <b>\$10,413,143,583</b> | <b>\$11,246,339,553</b>  | <b>\$12,930,449,563</b> |



**San Francisco City and County Employee Retirement System**  
**Summary of Assets as of June 30, 2002**

| Category                           | Cost                    | % of<br>Total  | Market                  | % of<br>Total  |
|------------------------------------|-------------------------|----------------|-------------------------|----------------|
| <b>Cash &amp; Cash Equivalents</b> | \$ 172,538,180          | 1.72%          | \$ 203,444,843          | 1.95%          |
| <b>EQUITIES</b>                    |                         |                |                         |                |
| Basic industries                   | 130,962,655             | 1.30%          | 149,914,166             | 1.44%          |
| Capital goods industries           | 115,543,857             | 1.15%          | 166,825,455             | 1.60%          |
| Consumer durables                  | 40,615,230              | 0.40%          | 41,602,160              | 0.40%          |
| Consumer non-durables & services   | 752,726,538             | 7.49%          | 956,351,546             | 9.18%          |
| Energy                             | 110,776,308             | 1.10%          | 138,337,966             | 1.33%          |
| Financial services                 | 409,956,996             | 4.08%          | 541,271,486             | 5.20%          |
| Miscellaneous                      | 698,847,730             | 6.96%          | 846,679,623             | 8.13%          |
| Technology                         | 354,093,412             | 3.52%          | 311,881,999             | 3.00%          |
| Utilities                          | 180,408,511             | 1.80%          | 162,345,033             | 1.56%          |
| Foreign Stock                      | 1,491,345,962           | 14.84%         | 1,480,901,024           | 14.22%         |
| <b>Equities Total</b>              | <b>4,285,277,200</b>    | <b>42.65%</b>  | <b>4,796,110,459</b>    | <b>46.06%</b>  |
| <b>FIXED INCOME</b>                |                         |                |                         |                |
| Basic industries                   | 56,504,938              | 0.56%          | 54,231,661              | 0.52%          |
| Capital goods industries           | 2,323,947               | 0.02%          | 2,622,921               | 0.03%          |
| Consumer non-durables & services   | 80,774,214              | 0.80%          | 65,522,631              | 0.63%          |
| Energy                             | 4,575,624               | 0.05%          | 4,677,492               | 0.04%          |
| Financial services                 | 508,255,623             | 5.06%          | 521,486,694             | 5.01%          |
| Miscellaneous                      | 879,488,889             | 8.75%          | 848,717,606             | 8.15%          |
| Mortgages                          | 983,813                 | 0.01%          | 983,813                 | 0.01%          |
| Technology                         | 5,828,425               | 0.06%          | 2,971,668               | 0.03%          |
| US Government                      | 1,350,871,086           | 13.45%         | 1,375,164,277           | 13.21%         |
| Utilities                          | 56,501,961              | 0.56%          | 45,834,738              | 0.44%          |
| Foreign government and corporate   | 439,583,819             | 4.38%          | 452,388,418             | 4.34%          |
| <b>Fixed Income Total</b>          | <b>3,385,692,338</b>    | <b>33.70%</b>  | <b>3,374,601,919</b>    | <b>32.41%</b>  |
| <b>OTHER INVESTMENTS</b>           |                         |                |                         |                |
| Real Estate                        | 798,171,377             |                | 820,844,105             |                |
| Venture Capital & Partnerships     | 1,405,468,522           |                | 1,218,142,257           |                |
| <b>Other Total</b>                 | <b>2,203,639,899</b>    | <b>21.93%</b>  | <b>2,038,986,362</b>    | <b>20.29%</b>  |
| <b>Grand Total</b>                 | <b>\$10,047,147,618</b> | <b>100.00%</b> | <b>\$10,413,143,583</b> | <b>100.00%</b> |



## Retirement Services Division

### *Administering mandated benefit programs and providing promised benefits*

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement counseling.

### **SFERS Plan Membership**

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of two tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current New Plan Firefighter benefits are established by Charter amendment passed in November 1996; current New Plan Police benefits are established by Charter amendment passed in November 1998; and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000. Miscellaneous Plan members have been covered under the Social Security System since September 1959 (City Charter §8.514).

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco. Plan membership is in effect as long as member contributions remain on deposit with SFERS.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems.

In 1968, deputized personnel of the Sheriff's Department were authorized to transfer to the State of California Public Employees' Retirement System (CalPERS). Airport Police and Institutional Police personnel were authorized to transfer to CalPERS in 1984 and 1985, respectively. District Attorney Investigators similarly were authorized to transfer to CalPERS in 1986.

In 1972, schoolteachers were authorized to transfer to the State Teachers Retirement System (STRS).

On September 1, 1990, employees who were Adult and Juvenile Probation Officers on that date became CalPERS members for all prospective service rendered in qualified job classes. Past service credit was transferred for most members in September 1996.

On September 1, 1995, Retirement System membership rules were changed: employees who had earned not less than 1040 hours of compensation during any 12-month period became eligible for retirement membership on the first day of the pay period following the payperiod in which the member earns 1040 hours of compensation.



On December 27, 1997, Airport Police Officers became members of the SFERS under City Charter §§8.559 and §8.586 (Police New Plan.)

On February 21, 1998, Miscellaneous Plan members in paramedic job classes who were members of SFERS under City Charter §§8.509 and 8.584, became members of SFERS under City Charter §8.588 (Fire New Plan).

Other Plan Membership Charter References:

| <b>CHARTER SECTION</b> | <b>EMPLOYEE GROUP</b>                                                                                                        |
|------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>8.508-1</b>         | <b>Teachers – STRS</b>                                                                                                       |
| <b>8.505</b>           | <b>Port Employees – CalPERS</b>                                                                                              |
| <b>8.506</b>           | <b>Sheriff's Deputies – CalPERS</b>                                                                                          |
| <b>8.506-2</b>         | <b>Airport Police Officers, Institutional Police Officers, District Attorney Investigators, Probation Officers – CalPERS</b> |
| <b>8.506-3</b>         | <b>Housing Authority Police – CalPERS</b>                                                                                    |
| <b>8.586</b>           | <b>Airport Police Officers – SFERS Police New Plan</b>                                                                       |
| <b>8.588</b>           | <b>Paramedics – SFERS Fire New Plan</b>                                                                                      |





## SFERS Membership

SFERS active membership falls within three categories:

- **Active Members** who are currently on City and County Payroll
- **Vested Members** who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
- **Reciprocal Members** who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2002, there were 29,713 members of the Miscellaneous Plans, 2,322 members of the Police Plans and 1,798 members of the Firefighter Plans.

### SFERS Active Membership as of June 30, 2002

| PLAN MEMBERSHIP GROUP                                       | NUMBER OF ACTIVE MEMBERS |            |            |               |
|-------------------------------------------------------------|--------------------------|------------|------------|---------------|
|                                                             | ACTIVE                   | VESTED     | RECIPROCAL | TOTAL         |
| Old Miscellaneous Plan members before November 2, 1976      | 2,093                    | 25         | 2          | 2,120         |
| New Miscellaneous Plan members on or after November 2, 1976 | 26,379                   | 712        | 502        | 27,593        |
| Old Police Plan members before November 2, 1976             | 229                      | 1          | 0          | 230           |
| New Police Plan members on or after November 2, 1976        | 2,055                    | 29         | 8          | 2,092         |
| Old Firefighter Plan members before November 2, 1976        | 292                      | 0          | 0          | 292           |
| New Firefighter Plan members on or after November 2, 1976   | 1,497                    | 6          | 3          | 1,506         |
| <b>TOTALS:</b>                                              | <b>32,545</b>            | <b>773</b> | <b>515</b> | <b>33,833</b> |

Miscellaneous Plan members comprise approximately 87.8% of the total SFERS Plan membership, with approximately 7.1% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.9% and 5.3% of the total membership, respectively.



Miscellaneous Plan members are members of the Social Security System (City Charter § 8.514). Social Security coverage was first made available to City and County employees in September 1959. Members covered under Social Security may elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members will have account shortages and will have reduced pensions on retirement if the shortages are not paid prior to retirement.

### Employer (City and County) Contribution Rates

As a Percentage of Covered Payroll

| COVERED PERIOD                   | POLICE | FIREFIGHTER | MISCELLANEOUS |
|----------------------------------|--------|-------------|---------------|
| 1995-1996 (1 <sup>st</sup> half) | 14.79% | 12.44%      | 4.98%         |
| 1995-1996 (2 <sup>nd</sup> half) | 12.69% | 10.58%      | 4.29%         |
| 1996-1997 (1 <sup>st</sup> half) | 0%     | 0%          | 1.83%         |
| 1996-1997 (2 <sup>nd</sup> half) | 0%     | 0%          | 0%            |
| 1997-2001                        | 0%     | 0%          | 0%            |
| 2001-2002                        | 0%     | 0%          | 0%            |

Note: Rates of contribution are composite rates for Old and New groups.

### Employee Contribution Rates

As a Percentage of Covered Payroll

| PLAN MEMBERSHIP GROUP | RATE OF CONTRIBUTION |
|-----------------------|----------------------|
| Miscellaneous (Old)*  | 8.00%                |
| Miscellaneous (New)   | 7.50%                |
| Police (Old)          | 7.00%                |
| Police (New)          | 7.50%                |
| Firefighter (Old)     | 7.00%                |
| Firefighter (New)     | 7.50%                |

\*Contributions for Old Plan Miscellaneous Employees (City Charter § 8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.



## SFERS Retirement Services

The following table summarizes some of the major activities of the SFERS Retirement Services Division during Plan Years 2000-2001 and 2001-2002:

| ACTIVITY                                                      | 2000-2001     | 2001-2002     |
|---------------------------------------------------------------|---------------|---------------|
| <b>Retirement Appointments</b>                                | <b>1662</b>   | <b>1582</b>   |
| <b>Retirement Applications Processed</b>                      | <b>861</b>    | <b>903</b>    |
| <b>Personnel Transactions:</b>                                | <b>3446</b>   | <b>2405</b>   |
| New Members (New Hires)                                       | 2113          | 1351          |
| New Members (1040 hours membership)                           | 776           | 709           |
| Rehires                                                       | 217           | 140           |
| Fire Recruits                                                 | 776           | 64            |
| Police Recruits                                               | 177           | 92            |
| Sheriff Recruits                                              | 67            | 49            |
| <b>Visitors</b>                                               | <b>17,275</b> | <b>16,321</b> |
| <b>Incoming Correspondence</b>                                | <b>18,946</b> | <b>17,262</b> |
| <b>Home Visits</b>                                            | <b>17</b>     | <b>20</b>     |
| <b>Group Presentations</b>                                    | <b>38</b>     | <b>20</b>     |
| <b>Beneficiary Changes</b>                                    | <b>1291</b>   | <b>1262</b>   |
| <b>Refund Packets</b>                                         | <b>1894</b>   | <b>1593</b>   |
| <b>Verification of Pension or Benefit Data</b>                | <b>303</b>    | <b>494</b>    |
| <b>Electronic Fund Transfer (new and changes)</b>             | <b>2390</b>   | <b>1978</b>   |
| <b>Other activities (address changes, name changes, etc.)</b> | <b>2351</b>   | <b>1995</b>   |
| <b>Pre-retirement Seminars</b>                                | <b>6</b>      | <b>5</b>      |
| Registered Attendees at Pre-retirement Seminars               | 925           | 801           |
| <b>Mid-career Retirement Planning Seminars</b>                | <b>0</b>      | <b>1</b>      |
| Registered Attendees at Mid-career Seminars                   | 0             | 83            |

Retirement appointments decreased 4.8% and retirement applications processed increased 4.9% in Plan Year 2001-2002 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted five pre-retirement seminars during Plan Year 2001-2002 that provided individualized benefit counseling for over 800 Miscellaneous Plan members considering retirement within the next five years. Retirement staff sponsored and conducted one mid-career retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in a retirement seminar sponsored by the Police Officers Association.



**SFERS Plan Member Communications:** During Plan Year 2001-2002, SFERS Retirement Services Division produced and distributed over 33,000 Annual Member Statements to active SFERS members.

## **SFERS Retirement Statistics for Plan Year Ended June 30, 2002**

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2001-2002, as well as benefits payment summaries and comparisons:

### **New Retirements Processed during Plan Year Ended June 30, 2002**

| <b>MEMBER GROUP</b> | <b>SERVICE</b> | <b>VESTING</b> | <b>INDUSTRIAL DISABILITY</b> | <b>ORDINARY DISABILITY</b> | <b>TOTAL</b> |
|---------------------|----------------|----------------|------------------------------|----------------------------|--------------|
| Miscellaneous       | 542            | 166            | N/A                          | 61                         | 769          |
| Firefighter         | 35             | 1              | 24                           | 0                          | 60           |
| Police              | 41             | 2              | 9                            | 0                          | 52           |
| <b>TOTALS:</b>      | <b>* 618</b>   | <b>169</b>     | <b>33</b>                    | <b>61</b>                  | <b>881</b>   |

\*Total service retirements in Plan Year 2001-2002 includes applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

The total number of new retirements processed in Plan Year 2001-2002 was 6.3% higher than retirements processed in Plan Year 2000-2001. Service retirements represent 70.2% of the total of new retirements processed.

Miscellaneous retirements represented 87.3% of the total retirements processed in Plan Year 2001-2002, an increase from 85.0% in Plan Year 2000-2001.

Firefighter retirements represented 6.8% of the total retirements processed in Plan Year 2001-2002, an increase from 6.0% in Plan Year 2000-2001.

Police retirements represented 5.9% of the total retirements processed in Plan Year 2001-2002, a decrease from 8.9% in Plan Year 2000-2001.





## Miscellaneous Plan Members Plan Year Ended June 30, 2002

### SERVICE CREDIT AT RETIREMENT

| YEARS OF SERVICE | SERVICE RETIREMENTS | VESTING RETIREMENTS | ORDINARY DISABILITY | TOTAL         | PERCENT OF TOTAL |
|------------------|---------------------|---------------------|---------------------|---------------|------------------|
| 0-5              | 21                  | 14                  | 0                   | 35            | 4.6%             |
| 6-10             | 114                 | 74                  | 6                   | 93            | 12.1%            |
| 11-15            | 74                  | 38                  | 30                  | 142           | 18.5%            |
| 16-20            | 114                 | 34                  | 18                  | 166           | 21.6%            |
| 21-25            | 97                  | 5                   | 3                   | 105           | 13.7%            |
| 26-30            | 106                 | 1                   | 3                   | 110           | 14.3%            |
| 31-35            | 74                  | 0                   | 1                   | 78            | 10.1%            |
| 36-40            | 38                  | 0                   | 0                   | 38            | 4.9%             |
| Over 40          | 2                   | 0                   | 0                   | 2             | 0.3%             |
| <b>TOTAL</b>     | <b>542</b>          | <b>166</b>          | <b>61</b>           | <b>769</b>    | <b>100.0%</b>    |
| <b>PERCENT</b>   | <b>70.5%</b>        | <b>21.6%</b>        | <b>7.9%</b>         | <b>100.0%</b> |                  |

Approximately 70.4% of the total Miscellaneous Plan retirements had less than 26 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2001-2002 was 19.7 years.

Miscellaneous Plan service retirees were credited with an average of 22.9 years of service while those who retired for ordinary disability were credited with an average of 15.4 years of service.

### AGE AT RETIREMENT

| AGE          | SERVICE    | VESTING    | ORDINARY DISABILITY | TOTAL      | PERCENT OF TOTAL |
|--------------|------------|------------|---------------------|------------|------------------|
| Under 55     | 47         | 93         | 43                  | 183        | 23.8%            |
| 55-60        | 156        | 47         | 18                  | 221        | 28.7%            |
| 61-65        | 234        | 13         | 0                   | 247        | 32.1%            |
| Over 65      | 105        | 13         | 0                   | 118        | 15.3%            |
| <b>TOTAL</b> | <b>542</b> | <b>166</b> | <b>61</b>           | <b>769</b> | <b>100.0%</b>    |

The average age of all Miscellaneous Plan members who retired in Plan Year 2001-2002 was 57.0 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 50.6 years.



**Police and Firefighter Plan Members  
Plan Year Ended June 30, 2002**

**SERVICE CREDIT AT RETIREMENT**

| YEARS OF SERVICE | SERVICE RETIREMENTS | VESTING RETIREMENTS | INDUSTRIAL DISABILITY* | TOTAL       | PERCENT OF TOTAL |
|------------------|---------------------|---------------------|------------------------|-------------|------------------|
| 0-5              | 2                   | 0                   | 0                      | 2           | 1.8%             |
| 6-10             | 0                   | 1                   | 1                      | 2           | 1.8%             |
| 11-15            | 0                   | 1                   | 1                      | 2           | 1.8%             |
| 16-20            | 2                   | 0                   | 1                      | 3           | 2.7%             |
| 21-25            | 3                   | 1                   | 1                      | 5           | 4.5%             |
| 26-30            | 30                  | 0                   | 19                     | 49          | 43.8%            |
| 31-35            | 36                  | 0                   | 10                     | 46          | 41.1%            |
| 36-40            | 30                  | 0                   | 0                      | 3           | 2.7%             |
| Over 40          | 0                   | 0                   | 0                      | 0           | 0.0%             |
| <b>TOTAL</b>     | <b>76</b>           | <b>3</b>            | <b>33</b>              | <b>112</b>  | <b>100%</b>      |
| <b>PERCENT</b>   | <b>77.4%</b>        | <b>0.8%</b>         | <b>21.8%</b>           | <b>100%</b> |                  |

\* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2001-2002

Approximately 12.5% of the total Police and Firefighter Plan retirements had less than 26 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2001-2002 was 28.8 years.

Police and Firefighter Plan service retirees were credited with an average of 29.6 years of service while those who retired for industrial disability were credited with an average of 28.0 years of service.

**AGE AT RETIREMENT**

| AGE          | SERVICE   | VESTING  | INDUSTRIAL DISABILITY | TOTAL      | PERCENT OF TOTAL |
|--------------|-----------|----------|-----------------------|------------|------------------|
| Under 55     | 31        | 2        | 18                    | 51         | 45.5%            |
| 55-60        | 34        | 1        | 13                    | 48         | 42.9%            |
| 61-65        | 10        | 0        | 2                     | 12         | 10.7%            |
| Over 65      | 1         | 0        | 0                     | 1          | 0.9%             |
| <b>TOTAL</b> | <b>76</b> | <b>3</b> | <b>33</b>             | <b>112</b> | <b>100.0%</b>    |

The average age of all Police and Firefighter Plan members who retired in Plan Year 2001-2002 was 55.5 years.



## Total Retirement Allowances – Plan Year Ended June 30, 2002

### Retired Members and Survivor Continuation Benefits

| MEMBER CATEGORY                                         | SERVICE RETIREMENTS | DISABILITY RETIREMENTS* | DEATH IN LINE OF DUTY | TOTAL         |
|---------------------------------------------------------|---------------------|-------------------------|-----------------------|---------------|
| <b>Number of Retirement Allowances as of 6/30/2002:</b> |                     |                         |                       |               |
| <b>MISCELLANEOUS</b>                                    | <b>12,375</b>       | <b>1,764</b>            | <b>N/A</b>            | <b>14,139</b> |
| Member                                                  | 10,171              | 1,233                   | N/A                   | 11,404        |
| Continuation                                            | 2,204               | 531                     | N/A                   | 2,735         |
| <b>FIREFIGHTER</b>                                      | <b>801</b>          | <b>863</b>              | <b>49</b>             | <b>1,713</b>  |
| Member                                                  | 546                 | 598                     | -                     | 1,144         |
| Continuation                                            | 255                 | 265                     | 49                    | 569           |
| <b>POLICE</b>                                           | <b>1,141</b>        | <b>760</b>              | <b>51</b>             | <b>1,952</b>  |
| Member                                                  | 840                 | 500                     | -                     | 1,340         |
| Continuation                                            | 301                 | 260                     | 51                    | 612           |
| <b>TOTAL</b>                                            | <b>14,317</b>       | <b>3,387</b>            | <b>100</b>            | <b>17,804</b> |

\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

As of June 30, 2002, the total number of retirement allowances paid to retired members represented 78.0% of the total allowances paid; continuation allowances represented 22.0% of the total allowances paid.

## Retirement Benefits Paid – Plan Year 2001- 2002

### Retired Members and Survivor Continuation Benefits

| MEMBER CATEGORY                                         | SERVICE RETIREMENTS  | DISABILITY RETIREMENTS* | DEATH IN LINE OF DUTY | TOTAL                |
|---------------------------------------------------------|----------------------|-------------------------|-----------------------|----------------------|
| <b>Retirement Benefits Paid in Plan Year 2001-2002:</b> |                      |                         |                       |                      |
| <b>MISCELLANEOUS</b>                                    | <b>\$ 19,777,269</b> | <b>\$ 2,138,528</b>     | <b>N/A</b>            | <b>\$ 21,915,797</b> |
| <b>FIREFIGHTER</b>                                      | <b>3,039,575</b>     | <b>3,200,450</b>        | <b>\$ 124,913</b>     | <b>6,364,939</b>     |
| <b>POLICE</b>                                           | <b>4,101,326</b>     | <b>2,212,019</b>        | <b>142,025</b>        | <b>6,455,369</b>     |
| <b>TOTAL</b>                                            | <b>\$ 26,918,170</b> | <b>\$ 7,550,997</b>     | <b>\$ 266,938</b>     | <b>34,736,105</b>    |

\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 63.1% of the total monthly retirement allowances paid during Plan Year 2001-2002.

Monthly retirement allowances paid to service retirees represented 77.5% of the total monthly retirement allowances and monthly disability benefits represented 21.7% of the total monthly retirement allowances paid during Plan Year 2001-2002.



## Death Benefits Paid – 3 Year Comparison

| PLAN YEAR                                             | 2001-2002  | 2000-2001  | 1999-2000  |
|-------------------------------------------------------|------------|------------|------------|
| <b>NUMBER OF DEATHS:</b>                              |            |            |            |
| Active Members                                        | 52         | 77         | 72         |
| Retired Members                                       | 568        | 528        | 507        |
| Continuants                                           | 183        | 172        | 189        |
| <b>TOTAL</b>                                          | <b>803</b> | <b>777</b> | <b>768</b> |
| <b>DEATH BENEFITS PAID:</b>                           |            |            |            |
| <b>DUE TO ACTIVE MEMBER DEATHS</b>                    |            |            |            |
| Refund of Contributions                               | 63         | 77         | 65         |
| Industrial Death Allowances                           | 0          | 2          | 2          |
| 6 Months Earnable Salary                              | 57         | 74         | 61         |
| <b>SUBTOTAL</b>                                       | <b>120</b> | <b>153</b> | <b>128</b> |
| <b>DUE TO RETIRED MEMBER DEATHS</b>                   |            |            |            |
| Continuation                                          | 249        | 231        | 229        |
| Option 1 (Refund of Member Accumulated Contributions) | 30         | 49         | 30         |
| \$100/Year for Each Year of Service (Maximum \$3,000) | 519        | 522        | 482        |
| <b>SUBTOTAL</b>                                       | <b>798</b> | <b>802</b> | <b>741</b> |
| <b>TOTAL</b>                                          | <b>918</b> | <b>955</b> | <b>869</b> |

The number of deaths during Plan Year 2001-2002 increased by 3.3% from Plan Year 2000-2001.

There was a 21.6% decrease in the number of benefits paid due to the death of active members in Plan Year 2001-2002 from the previous Plan Year. In Plan Year 2001-2002, the total number of death benefits payments processed due to the deaths of active and retired members decreased 3.9% over the previous Plan Year.





## Withdrawal of Contributions – 3 Year Comparison

|                        | MEMBER<br>ACCOUNTS | PERCENT<br>VARIANCE<br>PRIOR<br>YEAR | AMOUNT<br>WITHDRAWN | PERCENT<br>VARIANCE<br>PRIOR<br>YEAR |
|------------------------|--------------------|--------------------------------------|---------------------|--------------------------------------|
| <b>As of 6/30/2002</b> |                    |                                      |                     |                                      |
| Miscellaneous          | 1280               |                                      | \$ 9,232,179        |                                      |
| Firefighter            | 13                 |                                      | 140,111             |                                      |
| Police                 | 33                 |                                      | 318,718             |                                      |
| <b>TOTAL</b>           | <b>1326</b>        | <b>(3.8%)</b>                        | <b>\$ 9,691,008</b> | <b>(8.5%)</b>                        |
| <b>As of 6/30/2001</b> |                    |                                      |                     |                                      |
| Miscellaneous          | 1334               |                                      | \$10,221,516        |                                      |
| Firefighter            | 13                 |                                      | 223,032             |                                      |
| Police                 | 31                 |                                      | 145,789             |                                      |
| <b>TOTAL</b>           | <b>1378</b>        | <b>116.0%</b>                        | <b>\$10,590,337</b> | <b>50.5%</b>                         |
| <b>As of 6/30/2000</b> |                    |                                      |                     |                                      |
| Miscellaneous          | 619                |                                      | \$6,772,457         |                                      |
| Firefighter            | 2                  |                                      | 28,479              |                                      |
| Police                 | 17                 |                                      | 237,398             |                                      |
| <b>TOTAL</b>           | <b>638</b>         | <b>18.4%</b>                         | <b>\$7,038,334</b>  | <b>39.0%</b>                         |

The number of Withdrawal of Contributions requests processed during Plan Year 2001-2002 remained substantially unchanged due to Retirement staff's continuing efforts to settle long-inactive member accounts.



## Fiscal Division

### *Administering mandated benefit programs and providing promised benefits*

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information include:

- Net Assets held in trust for Pension Benefits
- Statement of Changes in Plan Net Assets
- Actuarial Report and Historical Information
- Disclosures as required by Governmental Accounting Standards Board (GASB)

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Systems and database maintenance
- Budgeting and appropriations control
- General ledger and reports

In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the City and County of San Francisco Employees' Retirement System is adequately funded at all times.

The accompanying audited statements of net assets available for pension benefits as of June 30, 2002, and 2001 and the related statements of changes in net assets held in trust for pension benefits are presented to provide information on the financial status of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2002. We encourage readers who may have questions regarding any of the financial information provided to request from SFERS the full set of audited *Financial Statements and Supplemental Schedule* as prepared by the independent auditors.



**SFERS Actual Expenditures – 3 Year Comparison  
Retirement Services/Administration Divisions**

| DESCRIPTION OF EXPENDITURES   | RETIREMENT SERVICES/ADMINISTRATION |                      |                      |
|-------------------------------|------------------------------------|----------------------|----------------------|
|                               | 2001-2002                          | 2000-2001            | 1999-2000            |
| Personnel Services            | \$ 4,061,839                       | \$ 3,906,243         | \$ 3,718,816         |
| Equipment Purchase            | 337,752                            | 105,933              | 447,082              |
| Materials and Supplies        | 47,862                             | 49,831               | 44,238               |
| Services of Other Departments | 6,174,528                          | 5,978,896            | 3,541,755            |
| Other Services                | 1,204,578                          | 1,214,225            | 2,530,965            |
| <b>TOTAL</b>                  | <b>\$ 11,826,559</b>               | <b>\$ 11,255,128</b> | <b>\$ 10,282,856</b> |

**SFERS Actual Expenditures – 3 Year Comparison  
Investment Division**

| DESCRIPTION OF EXPENDITURES   | INVESTMENT DIVISION  |                      |                      |
|-------------------------------|----------------------|----------------------|----------------------|
|                               | 2001-2002            | 2000-2001            | 1999-2000            |
| Personnel Services            | \$ 1,499,912         | \$ 1,328,812         | \$ 1,220,546         |
| Equipment Purchase            | 21,654               | 39,431               | 93,727               |
| Materials and Supplies        | 10,024               | 12,557               | 14,837               |
| Services of Other Departments | 320,148              | 754,095              | 575,409              |
| Other Services                | 16,146,391           | 21,241,255           | 27,518,524           |
| <b>TOTAL</b>                  | <b>\$ 17,998,129</b> | <b>\$ 23,376,150</b> | <b>\$ 29,423,043</b> |



# SFERS Pension Fund Income

Fiscal Year 2001-2002

| SOURCES OF INCOME                               | REALIZED<br>GAIN/LOSS   | UNREALIZED<br>GAIN/LOSS | TOTAL                     |
|-------------------------------------------------|-------------------------|-------------------------|---------------------------|
| City and County Contributions                   |                         |                         | \$ -                      |
| Employee Contributions                          |                         |                         | 155,918,122               |
| Interest Earned                                 |                         |                         | 212,806,250               |
| Dividends Earned                                |                         |                         | 63,875,140                |
| Securities Lending Income-Net                   |                         |                         | 11,171,806                |
| Dollar Roll Income – Net                        |                         |                         | 729,537                   |
| Recaptured Commission Income – Net              |                         |                         | 661,847                   |
| Real Estate Income                              |                         |                         | 48,951,277                |
| Alternative Investment Income                   |                         |                         | (6,686,655)               |
| Investment Expenses                             |                         |                         | 18,517,382                |
| <b>TOTAL INCOME:</b>                            |                         |                         | <b>\$ 505,944,706</b>     |
| <b>NET APPRECIATION IN FAIR VALUES</b>          |                         |                         |                           |
| Short-Term Securities                           | \$ (447,658)            | \$ 1,623,616            | \$ 1,175,958              |
| Equities                                        | (260,817,374)           | (584,641,663)           | (845,459,037)             |
| Debt Securities                                 | 21,059,618              | 25,548,574              | 46,608,192                |
| Real Estate                                     | 3,969,579               | 11,421,229              | 15,390,808                |
| Venture Capital                                 | (34,368,046)            | (175,116,112)           | (209,484,158)             |
| Other Assets                                    | (55,176,811)            | 209,052,949             | 153,876,138               |
| <b>TOTAL NET APPRECIATION:</b>                  | <b>\$ (325,780,692)</b> | <b>\$ (512,111,407)</b> | <b>\$ (837,892,099)</b>   |
| <b>TOTAL INCOME including NET APPRECIATION:</b> | <b>\$ (325,780,692)</b> | <b>\$ (512,111,407)</b> | <b>(331,947,393)</b>      |
| <b>Increase/(Decrease) From FY 2000–2001:</b>   |                         |                         | <b>\$ (1,609,565,404)</b> |





**SFERS Pension Fund Disbursements**  
**Plan Year 2001-2002**

| <b>DISBURSEMENTS / EXPENSES</b>                  | <b>AMOUNT</b>         |
|--------------------------------------------------|-----------------------|
| Service Retirement Payments                      | \$ 301,883,599        |
| Disability Retirement Payments                   | 9,813,665             |
| Proposition C – Cost of Living Adjustment        | 85,679,299            |
| Death Allowance Payments                         | 3,513,232             |
| Death Benefits                                   | 2,267,415             |
| Normal Contributions Paid as Death Benefit       | 2,013,836             |
| Retired Annuitant Rolls (Option 1 Death Benefit) | 676,550               |
| Refunds of Contributions                         | 17,864,746            |
| Administrative Expenses                          | 11,826,557            |
| <b>TOTAL DISBURSEMENTS &amp; EXPENSES:</b>       | <b>\$ 435,538,899</b> |
| <b>Increase/(Decrease) From FY 1999-2000:</b>    | <b>\$ 27,930,983</b>  |



## SFERS Contributions – 3 Year Comparison

### Employer (City and County) Contributions

| MEMBER              | PLAN | PLAN YEAR<br>2001 – 2002 | PLAN YEAR<br>2000 - 2001 | PLAN YEAR<br>1999 - 2000 |
|---------------------|------|--------------------------|--------------------------|--------------------------|
| Miscellaneous Plans |      | \$ -                     | \$ -                     | \$ 217,636               |
| Firefighter Plans   |      | -                        | -                        | -                        |
| Police Plans        |      | -                        | -                        | -                        |
| <b>TOTAL</b>        |      | \$ -                     | \$ -                     | \$ 217,636               |

### Employee Contributions

| MEMBER              | PLAN | PLAN YEAR<br>2001 – 2002 | PLAN YEAR<br>2000 - 2001 | PLAN YEAR<br>1999 - 2000 |
|---------------------|------|--------------------------|--------------------------|--------------------------|
| Miscellaneous Plans |      | \$ 133,268,640           | \$ 124,007,174           | \$ 113,030,434           |
| Firefighter Plans   |      | 10,386,844               | 9,767,082                | 8,869,212                |
| Police Plans        |      | 12,262,637               | 11,428,791               | 10,643,622               |
| <b>TOTAL</b>        |      | \$ 155,918,121           | \$ 145,203,047           | \$ 132,543,268           |



**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET ASSETS**  
**JUNE 30, 2002 AND 2001**

Information derived from audited Financial Statements

| <u>ASSETS</u>                                               | <u>2002</u>       | <u>2001</u>       |
|-------------------------------------------------------------|-------------------|-------------------|
|                                                             | (in thousands)    |                   |
| Deposits                                                    | \$ 1,298          | \$ 5,992          |
| Contributions receivable – members                          | 8,506             | 7,880             |
| Investment income receivable:                               |                   |                   |
| Interest                                                    | 32,156            | 33,653            |
| Dividends                                                   | 4,023             | 3,322             |
| Securities Lending                                          | 1,025             | 1,079             |
| Receivables from brokers, general partners, others          | 209,530           | 315,257           |
| Receivables under fixed coupon dollar repurchase agreement  | ---               | ---               |
| Investments at fair value:                                  |                   |                   |
| Short-term bills and notes                                  | 815,165           | 841,572           |
| Debt securities:                                            |                   |                   |
| U. S. government securities                                 | 1,478,010         | 1,381,595         |
| Other debt securities                                       | 1,896,592         | 2,020,457         |
| Equity securities                                           | 4,796,110         | 5,361,633         |
| Real estate                                                 | 820,844           | 875,015           |
| Venture capital                                             | 1,218,142         | 1,363,120         |
| Forward currency contracts, net                             | ---               | 8,323             |
| Investments in lending agents' short-term investment pool   | <u>1,461,506</u>  | <u>1,574,089</u>  |
| Total investments                                           | <u>12,486,369</u> | <u>13,425,804</u> |
| Total assets                                                | <u>12,742,907</u> | <u>13,792,987</u> |
|                                                             |                   |                   |
| <u>LIABILITIES</u>                                          | <u>2002</u>       | <u>2001</u>       |
| Payable to brokers                                          | 593,214           | 667,617           |
| Obligations under fixed coupon dollar repurchase agreements | 252,500           | 294,688           |
| Foreign Currency Contracts, net                             | 13,612            | ---               |
| Other liabilities                                           | 6,125             | 10,513            |
| Payable to borrowers of securities                          | <u>1,461,506</u>  | <u>1,574,089</u>  |
| Total liabilities                                           | <u>2,326,957</u>  | <u>2,546,907</u>  |
|                                                             |                   |                   |
| Net assets held in trust for pension benefits               | <u>10,415,960</u> | <u>11,246,080</u> |



**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**YEARS ENDED JUNE 30, 2002 AND 2001**  
**Information derived from audited Financial Statements**

|                                                                       | <u>2002</u>                 | <u>2001</u>              |
|-----------------------------------------------------------------------|-----------------------------|--------------------------|
|                                                                       | (in thousands)              |                          |
| <b>Additions:</b>                                                     |                             |                          |
| <b>Members' contributions:</b>                                        |                             |                          |
| Miscellaneous                                                         | \$ 133,269                  | \$ 124,007               |
| Firefighter                                                           | 10,387                      | 9,767                    |
| Police                                                                | <u>12,263</u>               | <u>11,429</u>            |
| <b>Total Contributions</b>                                            | <b><u>155,919</u></b>       | <b><u>145,203</u></b>    |
| <b>Investment income (expenses)</b>                                   |                             |                          |
| Interest                                                              | \$ 212,806                  | \$ 243,189               |
| Dividends                                                             | 63,875                      | 65,122                   |
| Net (depreciation) appreciation in fair value of investments          | (820,574)                   | (1,720,846)              |
| Securities lending income                                             | 35,676                      | 93,158                   |
| Fixed coupon dollar repurchase agreement income                       | 7,791                       | 16,918                   |
| Investment expenses                                                   | (18,517)                    | (23,839)                 |
| Securities lending borrower rebates and expenses                      | (24,505)                    | (79,464)                 |
| Fixed coupon dollar repurchase agreement finance charges and expenses | <u>(7,061)</u>              | <u>(17,059)</u>          |
| <b>Investment (loss) income, net</b>                                  | <b>(550,509)</b>            | <b>(1,422,821)</b>       |
| <b>Total (deductions) additions</b>                                   | <b>\$ (394,590)</b>         | <b>\$ (1,277,618)</b>    |
| <b>Deductions:</b>                                                    |                             |                          |
| Benefits                                                              | 413,899                     | 385,496                  |
| Refunds of contributions                                              | 9,814                       | 10,857                   |
| Administrative expenses                                               | <u>11,827</u>               | <u>11,255</u>            |
| <b>Total Deductions</b>                                               | <b><u>435,540</u></b>       | <b><u>407,608</u></b>    |
| <b>Net (decrease) increase</b>                                        | <b>(830,130)</b>            | <b>(1,685,226)</b>       |
| <b>Net assets held in trust for pension benefits:</b>                 |                             |                          |
| Beginning of year                                                     | <u>11,246,080</u>           | <u>12,931,306</u>        |
| End of year                                                           | <b>\$ <u>10,415,950</u></b> | <b><u>11,246,080</u></b> |





## Actuarial Summary

The Retirement System pays an array of benefits to members and their survivors -- service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. The Plan valuation at the beginning of the Fiscal Year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2001 data. The results were first published in December 2001.

### Assumptions and Method

The main assumptions used to measure the System's liabilities for future benefits payments were:

|                                           |                                                                   |
|-------------------------------------------|-------------------------------------------------------------------|
| <b>Investment Returns</b>                 | <b>8.25% per year</b>                                             |
| <b>Base Wage Increases</b>                | <b>4.50% per year</b>                                             |
| <b>Merit and Promotion Wage Increases</b> | <b>1.3%, approximately (varies by group and years of service)</b> |
| <b>Retiree Mortality</b>                  | <b>1983 Group Annuity Mortality Table</b>                         |

The actuarial funding method used was as follows:

- ◆ entry age normal cost method
- ◆ unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- ◆ unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.



## Key Results

Using the method and assumptions detailed above, the key findings of the latest valuation were:

### FUNDED STATUS

|                                         |                       |
|-----------------------------------------|-----------------------|
| Actuarial Liability                     | \$ 8,371,843,000      |
| Actuarial Value of Assets               | <u>10,797,024,000</u> |
| Unfunded Liability (Surplus)            | \$ <2,425,181,000>    |
| Funded Status<br>(assets / liabilities) | 128.97%               |

### EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates to be paid by the City in Fiscal Year 2002-2003 were derived from the following actuarial valuation results:

|                                       | POLICE   | FIRE     | MISC.   | TOTAL    |
|---------------------------------------|----------|----------|---------|----------|
| Normal Cost                           | 17.19%   | 17.92%   | 12.83%  | 13.56%   |
| Unfunded Liability & Other Costs      | (48.32)% | (51.42)% | (3.62)% | (10.76)% |
| Employee Contributions                | 7.43%    | 7.40%    | 7.55%   | 7.53%    |
| City Contribution Rate                | (38.56)% | (40.90)% | 1.66%   | (4.73)%  |
| Board Approved City Contribution Rate | 0.0%     | 0.0%     | 0.0%    | 0.0%     |



## ADDITIONAL DETAILS

Based on the method and assumptions stated on the previous pages, the basic findings of the latest valuation were:

### Actuarial Valuation Results As of June 30, 2001

|                           | POLICE           | FIREFIGHTER      | MISCELLANEOUS    | TOTAL              |
|---------------------------|------------------|------------------|------------------|--------------------|
| Active Members            | 2,181            | 1,803            | 26,540           | 30,524             |
| Annual Salaries           | \$ 159,047,000   | \$ 129,195,000   | \$ 1,570,123,000 | \$ 1,858,365,000   |
| Average Salary            | \$ 72,924        | \$ 71,656        | \$ 59,161        | \$ 60,882          |
|                           |                  |                  |                  |                    |
| Retired Members           | 1,935            | 1,722            | 13,951           | 17,608             |
| Annual Benefits           | \$ 71,713,000    | \$ 71,389,000    | \$ 247,660,000   | \$ 390,762,000     |
| Average Benefit           | \$ 37,061        | \$ 41,457        | \$ 17,752        | \$ 22,192          |
|                           |                  |                  |                  |                    |
| Actuarial Liability       | \$ 1,426,243,000 | \$ 1,183,406,000 | \$ 5,762,194,000 | \$ 8,371,843,000   |
| Actuarial Value of Assets | \$ 2,327,107,000 | \$ 1,964,073,000 | \$ 6,505,844,000 | \$10,797,024,000   |
| Unfunded Liability        | \$ (900,864,000) | \$ (780,667,000) | \$ (743,650,000) | \$ (2,425,181,000) |
| Funded Status             | 163.16%          | 165.97%          | 112.91%          | 128.97%            |
|                           |                  |                  |                  |                    |
| CONTRIBUTIONS RATES:      |                  |                  |                  |                    |
| Normal Cost               | 17.19%           | 17.92%           | 12.83%           | 13.56%             |
| + Unfunded Liability      | (48.77)%         | (51.87)%         | (4.07)%          | (11.21)%           |
| Total:                    | (31.58)%         | (33.95)%         | 8.76%            | 2.35%              |
| - Employee Contribution   | 7.43%            | 7.40%            | 7.55%            | 7.53%              |
| + Administrative Expenses | 0.45%            | 0.45%            | 0.45%            | 0.45%              |
| City and County Rate      | (38.56)%         | (40.90)%         | 1.66%            | (4.73)%            |



# Towers Perrin

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December 5, 2001

Retirement Board of the San Francisco  
City and County Employees' Retirement System  
30 Van Ness Avenue, Suite 3000  
San Francisco, CA 94102

Dear Honorable Members:

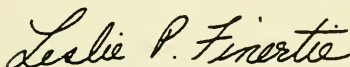
Enclosed is the actuarial valuation of the Retirement System as of July 1, 2001. The report contains recommended City contribution rates for the Fiscal Year commencing July 1, 2002.

This report is based on information provided to us by the System's staff and on draft audited financial statements of the System.

This valuation has been conducted in accordance with generally accepted actuarial principles and financial accounting practices. The actuarial assumptions used in the development of the recommended contribution level have been selected by the Retirement Board, with the concurrence of Towers Perrin, to be individually reasonable (taking into account the experience of the plan and reasonable expectations) and, in combination, offer the actuary's best estimate of anticipated experience under the plan.

We look forward to discussing the valuation results with the Board on December 11, 2001.

Sincerely,



LPF:tg

Enclosures

*Copies of the full report are available. Please contact 415-487-7020 to obtain a copy.*





## Actuarial Certification

SFERS retained Towers Perrin to perform a valuation of its pension plan for the purpose of determining a recommended contribution level and developing appropriate accounting disclosure. This valuation has been conducted in accordance with generally accepted actuarial principles and practices prescribed by the Actuarial Standards Board.

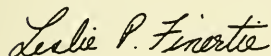
The consulting actuary is a member of the Society of Actuaries and other professional actuarial organizations and meets their "General Qualification Standard for Prescribed Statements of Actuarial Opinions" relating to pension plans.

In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. While the scope of our engagement did not call for us to perform an audit or independent verification of this information, we have reviewed this information for reasonableness but have not audited it. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information.

The actuarial assumptions and methods employed in the development of the recommended contribution level have been selected by the Retirement Board, with the concurrence of Towers Perrin. The Government Accounting Standards Board requires the use of reasonable assumptions.

The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results, since the Actuarial Standards of Practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The information contained in this report was prepared for the internal use of SFERS and its auditors in connection with our actuarial valuation of the pension plan. It is not intended nor necessarily suitable for other purposes. Further distribution or use of all or part of this report to other parties is expressly prohibited without Towers Perrin's prior written consent.



Leslie P. Finertic, F.S.A., E.A., M.A.A.A., F.C.A.

Towers Perrin  
December 2001







City and County of San Francisco

# Retirement System Annual Report

For the Year Ended June 30, 2003





# **City and County of San Francisco Employees' Retirement System**

## ***MISSION STATEMENT***

*San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits*

**Annual Report  
For Fiscal Year Ended June 30, 2003**





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## President's Message

### INVESTING ASSETS • PROVIDING BENEFITS • SERVING MEMBERS

December, 2003

On behalf of the San Francisco Retirement System Board and staff, I am pleased to present, in its 71<sup>st</sup> year, the Annual Report for the fiscal year 2002-2003.

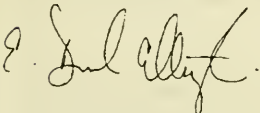
Below are some highlights affecting our participants and the management of the System that occurred during the year:

- ◆ As a result of an asset liability study and asset allocation report, the Board adopted a new Investment Policy to guide the prudent placement of plan assets.
- ◆ The Communications Plan adopted by the Board provides additional services to our members. Retirement staff now conducts one-day Pre-Retirement seminars and Mid-Career Retirement planning seminars to inform members of their benefits and help in estimating pension benefits, as well as an overview of the deferred compensation plan.
- ◆ The Retirement Board adopted its first Business Plan to prioritize initiatives for the System and to serve as a guide for budget development.
- ◆ The voters approved increased retirement benefits for police and firefighters in the November 2002 Election and the Retirement System conducted elections necessary to establish coverage for pre 1976 hires and paramedic officers. The Proposition H enhanced benefits are being paid for retirements effective on or after January 1, 2003.
- ◆ In an effort to continue its priority on governance issues, the Board adopted Terms of Reference for the Board and each of its committees as well as overall governance principles. Further, each policy affecting the Board is regularly under review for relevance, effectiveness and revision.

We are very proud of these accomplishments. Speaking specifically to investments, the Retirement Board remains diligent and dedicated to our mission statement to protect and prudently invest the Pension Fund's assets. Even with the City's budget deficit, the State of California's economic climate and negative world events, the value of the Pension Fund remains strong and the Investment Portfolio continues to grow. We remain committed to providing exemplary service to the City's employees and retirees and to ensure the security of benefits for the plan's retirees and beneficiaries.

Finally, the Retirement Board would like to thank our staff for their hard work and commitment. As an institution with over 50,000 participants, we would not have been able to achieve these accomplishments, let alone day-to-day activities, without staff's diligence and commitment to excellence. Participants need to know that.

With best wishes,



E. David Ellington, President  
Retirement Board, City and County of San Francisco



## **The Retirement System**

The San Francisco Employees' Retirement System was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS § 457 plan.

Each of these benefit plans is mandated by specific San Francisco City Charter sections and/or Administrative Code provisions.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS § 457 Plan, provides participants a method of deferring from current taxation part of their salary during employment for distribution after retirement.

## **The Retirement Board**

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets once each month and reviews and approves important elements of Retirement System business, including:

### **Pension Fund Investment**

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

### **Actuarial Funding**

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

### **Active and Retired Members**

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost-of-living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.



## Administration and Management

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

### Members of the 2002-2003 SFERS Retirement Board

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

|                                      |                                   |
|--------------------------------------|-----------------------------------|
| William Breall, M.D.<br>Cardiologist | Appointed Member<br>February 2004 |
|--------------------------------------|-----------------------------------|

|                                              |                                 |
|----------------------------------------------|---------------------------------|
| Al Casciato<br>Lieutenant, Police Department | Elected Member<br>February 2005 |
|----------------------------------------------|---------------------------------|

|                                                           |                                 |
|-----------------------------------------------------------|---------------------------------|
| Joseph D. Driscoll, C.F.A.<br>Lieutenant, Fire Department | Elected Member<br>February 2006 |
|-----------------------------------------------------------|---------------------------------|

|                                             |                                   |
|---------------------------------------------|-----------------------------------|
| E. David Ellington<br>Entrepreneur/Attorney | Appointed Member<br>February 2004 |
|---------------------------------------------|-----------------------------------|

|                                                                   |                                 |
|-------------------------------------------------------------------|---------------------------------|
| Herb Meiberger, C.F.A.<br>Security Analyst, Retirement Department | Elected Member<br>February 2007 |
|-------------------------------------------------------------------|---------------------------------|

|                                                  |                                   |
|--------------------------------------------------|-----------------------------------|
| Gerardo Sandoval<br>Member, Board of Supervisors | Ex-Officio Member<br>January 2004 |
|--------------------------------------------------|-----------------------------------|

|                                                                                  |                                   |
|----------------------------------------------------------------------------------|-----------------------------------|
| Brenda Wright<br>Senior Vice President<br>Regional Manager Community Development | Appointed Member<br>February 2008 |
|----------------------------------------------------------------------------------|-----------------------------------|





## **SFERS Senior Administrative Staff**

### **Administration:**

|                        |                               |
|------------------------|-------------------------------|
| Clare M. Murphy        | Executive Director            |
| Jay Huish              | Deputy Director               |
| Carol Cypert, CRA, CRC | Deferred Compensation Manager |
| Shauna Marie Rose      | Executive Assistant           |

### **Investment Division:**

|                                          |                                |
|------------------------------------------|--------------------------------|
| David Kushner, C.F.A.                    | Deputy Director of Investments |
| Carl Wilberg<br>Equities                 | Senior Investment Officer      |
| Richard Pikel<br>Fixed Income            | Senior Investment Officer      |
| Glen Schwartz<br>Alternative Investments | Senior Investment Officer      |
| Donald Holcher<br>Real Estate            | Senior Investment Officer      |

### **Retirement Services Division:**

|               |                          |
|---------------|--------------------------|
| Maria Newport | Retirement Administrator |
|---------------|--------------------------|

### **Fiscal Division:**

|          |                         |
|----------|-------------------------|
| Ted Wong | Acting Chief Accountant |
|----------|-------------------------|

### **Actuary Division:**

|                 |                |
|-----------------|----------------|
| Clare M. Murphy | Acting Actuary |
|-----------------|----------------|



## Highlights of Retirement Board Activities for Fiscal Year 2002-2003

### ◆ General Administrative Highlights

The Retirement Board continued its focus on Governance Principles and Policies throughout the fiscal year.

In September the Board considered its committee structure and approved a Board Development assessment process and tool. Further, the Board considered and adopted Terms of Reference for the Board, Committees, President and Vice President and adopted a list of governance principles.

In November the Board adopted its first Business Plan to guide the budget development process for the fiscal year 2003-2004.

At the August 2002 meeting, the Board welcomed E. David Ellington to its membership and in March, the Board elected Mr. Ellington President and Mr. Joseph Driscoll as Vice-President. Supervisor Gerardo Sandoval was appointed to the Board as the Board of Supervisors designee starting February 2003.

During Fiscal Year 2002-03, the Board addressed a number of the actuarial matters. Over the course of the year the Board discussed and refined the job description and specification of the in-house actuarial position prior to announcing the position for examination. With the assistance of Towers Perrin Consulting actuaries, the Board discussed and adopted the interest rate to be credited to member accounts and changed the purchase opportunities at 6.25%. The Board reviewed and adopted the valuation of the plan based on July 1, 2002, data and established the employer contribution rates for fiscal year 2003-04 at zero percent, requiring no monies from the City and County of San Francisco. Further, the Board conducted a request for proposed process regarding consulting actuarial services, interviewed four finalists in May 2003 and selected Towers Perrin for an additional five-year assignment.

In March, the Retirement Board carefully reviewed the basic cost of living report and adopted a 2% cost of living adjustment for retirees who retired on or before July 1, 2002 and a 1% cost of living adjustment for those who retired after July 1, 2002 through July 1, 2003. This basic cola was payable on July 1, 2003. At the same meeting the Board reviewed the report on supplemental cost of living adjustment; however it was unable to adopt any further benefits as no excess earnings had been achieved during the 2001-2002 fiscal year.

The Board also adopted resolutions, policies, and procedures relating to benefit issues including the revision of procedures for payment of ex-spouses prior to retirement of member with procedures for accounting for resulting member (Gilmore) shortages.

### ◆ Deferred Compensation

The Retirement Board reviewed the Investment Performance Analysis provided by KPMG for the years ending June 30, 2001 and June 30, 2002 and appointed the Deferred Compensation Committee on Investment Options to evaluate the current fund lineup. As a result of the recommendation of the Deferred Compensation Committee on Investment Options, the Retirement Board enhanced the core investment fund lineup by adding seven new investment options and deleting three investment options as follows:



## Highlights of Retirement Board Activities for Fiscal Year 2002-2003 (Continued)

### ◆ Deferred Compensation (Continued)

#### Investment options added to the core investment lineup:

Vanguard® 500 Index Fund – Investors Shares

ING VP Index Plus MidCap Portfolio – Class R

ING JP Morgan MidCap Value Portfolio – Class R

ING VP International Value Portfolio – Class R

CCSF Long Term Portfolio

CCSF Mid Term Portfolio

CCSF Near Term Portfolio

#### Investment options deleted from the core investment lineup:

Calvert Social Balanced Portfolio

AIM V.I. Growth Fund – Series I Shares

ING VP International Equity Portfolio – Class R

In February 2004, the contractual agreement with ING Financial Advisors will expire. Staff requested approval from the Retirement Board to prepare a Request for Proposal (RFP) to retain a consultant to assist staff to solicit bids for Plan Administrator through an alliance structure. In May 2003, the Retirement Board authorized a contract with Mercer Investment Consulting to assist in the preparation of a RFP for Plan Administrator of the Deferred Compensation Plan.

The Retirement Board continues to monitor the Deferred Compensation Plan to ensure participants are provided with on-going enhancements, well performing investment funds and a competitive fee structure.

### ◆ Investment Division Highlights

Throughout the fiscal year the Retirement Board reviewed the performance of the Trust Fund and the performance and adherence to guidelines by individual managers. The Investment Division, working with the Fund's General Consultant (Angeles Investment Advisors) completed a detailed Asset/Liability analysis, followed by a thorough Asset Allocation study, which resulted in changes to the Fund's asset and sub-asset class allocation structure. As a part of this process, the Investment Division recommended, and the Board approved, a new Investment Policy, which incorporated the asset allocation recommendations and implemented a defined policy for rebalancing of assets.

As a result of changes in the Fund's asset allocation, a number of manager searches were conducted throughout the fiscal year. In addition, with the assistance of Cambridge Associates, a detailed review of the Fund's Alternative Investment Program was undertaken, which culminated in a Request for Proposal for



## Highlights of Retirement Board Activities for Fiscal Year 2002-2003 (Continued)

an Alternative Investment Consultant. After spending considerable time interviewing potential candidates, Staff recommended, and the Board selected, Portfolio Advisors, LLC.

The Retirement Board issued a Request for Proposal for Custodial Services. Northern Trust, the Fund's custodian since 1996, was retained for an additional five-year term.

The following is a summary of the investment activity that the Retirement Board and staff accomplished during Fiscal Year 2002-2003, organized by the major segments of the capital markets:

### ◆ Equity

As a part of the restructuring of the Equity Asset class stemming from the Asset Allocation study completed early in the fiscal year, two new sub-asset classes were added. As a result of these changes, the Board approved issuance of Requests for Proposal for managers of Convertible Securities and International Value Equities. Following these searches, the Board approved retention of Advent Capital Management LLC and Zazove Associates, LLC to manage convertible securities portfolios, and Causeway Capital Management LLC, and LSV Asset Management were added to actively manage international large capitalization value stocks. Finally, the Board approved use of international and domestic exchange traded funds (ETFs) to provide liquidity and flexibility.

In compliance with the Board approved policy for Asset Allocation rebalancing, funds were shifted between managers as assets were reallocated within and between the sub-asset classes comprising the equity portion of the total fund.

### ◆ Fixed Income

As a result of the Asset Allocation study completed early in the fiscal year, the Board approved minor changes to weightings within the Fixed Income asset class. Therefore, there were no fixed income manager changes required in Fiscal Year 2002-2003.

In compliance with the Board approved policy for Asset Allocation rebalancing, funds were shifted between managers as assets were reallocated within and between the sub-asset classes comprising the Fixed Income portion of the total fund.

### ◆ Alternative Investments

During the fiscal year ending June 30, 2003, the Retirement Board approved conducting a search for an alternative asset consultant to assist with the activities of the alternative investment program. After an exhaustive review of the respondents to a Request for Proposal, the Retirement Board selected Portfolio Advisors, a Connecticut-based firm, to provide non-discretionary consulting services.

### ◆ Real Estate

As a result of the Asset Allocation study completed early in the Fiscal Year, the Retirement Board approved an increase in the target weight for Real Estate from 8% to 12% of total fund assets.





## SFERS ADMINISTRATION

### *Administering mandated benefit programs and providing promised benefits*

#### Administration Division

The Administration Division manages the daily activities of the SFERS and oversees all other Divisions in the Department – Investments, Operations, Member Services, Human Resources and Fiscal Divisions. The Administration Division provides administrative support to the Retirement Board in preparation of agendas, minutes and public notice requirements for the Board's meetings and committee meetings. Administrative staff interfaces with Board members in travel requests, orientation of new Board members, and facilitates on-going educational opportunities for Board members.

Public Records Requests are managed and administered by the Administration Division in accordance with the City's Record and Retention Policy. The Disability applications and subsequent hearings before an Administrative Law Judge are processed by Administrative Office in consultation with the Workers Compensation Division of the Department of Human Resources. (See chart on page 12..)

#### Actuarial Services

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System.

#### San Francisco 457 Deferred Compensation Plan

The Deferred Compensation Plan, adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The SFERS Deferred Compensation Division oversees and monitors the City's Deferred Compensation Plan through a third-party plan administrator, currently ING Financial Advisors, LLC. The Deferred Compensation division administers the hardship withdrawal application process, qualified domestic relations orders, payroll deductions, requests for proposals, and reviews of investment fund assessments by KPMG for the plan.

During the past year the Deferred Compensation Plan grew in assets and in number of participants. The Plan offers a diverse selection of 24 core investment funds including a fixed account and access to a self-directed brokerage option. The three new CCSF Portfolios are Lifestyle funds that were designed by ING Financial Advisors, LLC exclusively for the City and County of San Francisco. Lifestyle portfolios are multi-asset type investment options that are intended to be managed in accordance with a participant's retirement time horizon, long-term return expectations, and overall tolerance for risk. Lifestyle funds provide diversified investment choices for those seeking assistance in making their asset allocation decision.

The following table provides detailed information related to the City's Deferred Compensation Plan Fiscal Year 2002-2003.



**CITY AND COUNTY OF SAN FRANCISCO 457 PLAN**  
**DEFERRED COMPENSATION: CHANGES IN PLAN VALUES**  
**ING Financial Advisors, LLC**  
**06/30/02 – 06/30/03**

| Fund Name                                                     | Assets as of<br>06/30/2002 | Assets as of<br>06/30/2003 | Percent<br>Change        |
|---------------------------------------------------------------|----------------------------|----------------------------|--------------------------|
| ING Fixed Account – 457/401                                   | \$302,309,124              | \$362,118,045              | +19.78%                  |
| Janus Twenty Fund                                             | \$84,638,874               | \$84,492,784               | -0.17%                   |
| ING T. Rowe Price Growth Equity Portfolio – Initial Class     | \$70,508,280               | \$71,348,634               | +1.19%                   |
| ING VP Balanced Portfolio Inc. – Class R                      | \$66,472,543               | \$64,965,016               | -2.27%                   |
| AIM V.I. Capital Appreciation Fund – Series I Shares          | \$61,554,130               | \$54,589,143               | -11.32%                  |
| Janus Aspen Series Worldwide Growth Portfolio – Inst. Shares  | \$41,119,241               | \$35,970,708               | -12.52%                  |
| ING VP Index Plus LargeCap Portfolio – Class R                | \$38,400,123               | \$35,345,018               | -7.96%                   |
| Janus Aspen Series Balanced Portfolio – Inst. Shares          | \$35,980,873               | \$35,286,424               | -1.93%                   |
| ING VP Bond Portfolio – Class R                               | \$21,386,845               | \$29,042,371               | +35.80%                  |
| Ariel Fund                                                    | \$27,911,637               | \$23,952,694               | -14.18%                  |
| ING VP Money Market Portfolio – Class R                       | \$20,645,231               | \$17,066,411               | -17.34%                  |
| Janus Aspen Series Flexible Income Portfolio – Inst. Shares   | \$6,068,331                | \$13,373,460               | +120.38%                 |
| ING JP Morgan Fleming International Portfolio – Initial Class | \$11,605,313               | \$12,147,839               | +4.68% <sup>1</sup>      |
| ING VP Value Opportunity Portfolio – Class R                  | \$13,288,713               | \$11,948,494               | -10.09%                  |
| Vanguard® 500 Index Fund – Investor Shares                    | \$0.00                     | \$10,761,988               | New Fund <sup>2</sup>    |
| ING VP Growth Portfolio – Class R\$9.5                        | 94,343                     | \$10,290,803               | +7.26%                   |
| ING VP Small Company Portfolio – Class R                      | \$5,450,171                | \$5,831,393                | +7.00%                   |
| ING Ultimate Account                                          | \$5,316,722                | \$4,982,781                | -5.28%                   |
| Citizens Emerging Growth Fund® - Administrative Shares        | \$3,553,325                | \$3,534,546                | -0.53%                   |
| CCSF Mid Term Portfolio                                       | \$0.00                     | \$2,382,717                | New Fund <sup>3</sup>    |
| CCSF Long Term Portfolio                                      | \$0.00                     | \$1,373,683                | New Fund <sup>3</sup>    |
| ING VP Index Plus MidCap Portfolio – Class R                  | \$0.00                     | \$1,248,419                | New Fund <sup>2</sup>    |
| ING JP Morgan MidCap Value Portfolio – Initial Class          | \$0.00                     | \$1,186,601                | New Fund <sup>2</sup>    |
| CCSF Near Term Portfolio                                      | \$0.00                     | \$1,031,009                | New Fund <sup>3</sup>    |
| ING VP International Value Portfolio – Class R                | \$0.00                     | \$834,000                  | New Fund <sup>2</sup>    |
| Calvert Social Balanced Portfolio                             | \$7,247,427                | \$0.00                     | Fund Closed <sup>4</sup> |
| AIM V.I. Growth Fund – Series I Shares                        | \$6,533,606                | \$0.00                     | Fund Closed <sup>4</sup> |
| ING VP International Equity Portfolio – Class R               | \$3,054,245                | \$0.00                     | Fund Closed <sup>4</sup> |
| <b>Total Investment Funds at ING Financial Advisors, LLC</b>  | <b>\$842,639,097</b>       | <b>\$895,124,981</b>       | <b>+6.23%</b>            |
| <b>Total Annuity Assets at ING Financial Advisors, LLC</b>    | <b>1,877,293</b>           | <b>1,826,273</b>           |                          |
| <b>Total Annuity Assets at Hartford</b>                       | <b>32,829,423</b>          | <b>30,248,164</b>          |                          |
| <b>TOTAL PLAN ASSETS</b>                                      | <b>\$877,345,813</b>       | <b>\$927,199,418</b>       | <b>+5.68%</b>            |

<sup>1</sup> 2002 Individual Investment Funds are rounded up to the nearest dollar and may vary from the 2001-2002 annual report, however the total Investment Fund balance remains the same.

<sup>2</sup> Sub-advisor replaced December 16, 2002

<sup>3</sup> Investment option added to menu September 3, 2002

<sup>4</sup> Investment option added to menu November 18, 2002

<sup>5</sup> Investment option closed November 15, 2002

|                                            |        |
|--------------------------------------------|--------|
| Number of Active Plan Participants:        | 21,281 |
| Number of Retirees Not Receiving Benefits  | 1,187  |
| Retirees Receiving Benefits from Hartford: | 649    |
| Retirees Receiving Benefits from ING:      | 1,033  |

Total Retiree Assets: \$195,454,573

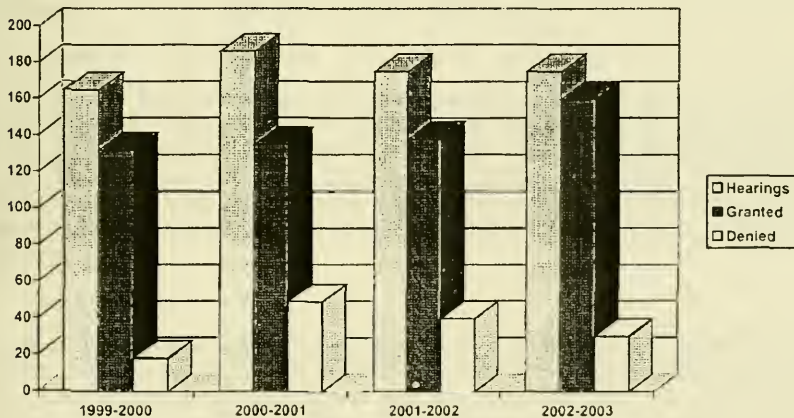


## HEARING OFFICER REPORT FISCAL YEAR ENDED JUNE 30, 2003

| CASES                             | TOTAL<br>NO. OF<br>HEARINGS | TOTAL<br>NO.<br>GRANTED | TOTAL<br>NO.<br>DENIED |
|-----------------------------------|-----------------------------|-------------------------|------------------------|
| Industrial Disability Retirements | 61                          | 60                      | 5                      |
| Ordinary Disability Retirements   | 100                         | 90                      | 12                     |
| Death Benefits                    | 7                           | 3                       | 0                      |
| Petitions for Rehearing           | 1                           | 4                       | 11                     |
| PERS                              | 4                           | 3                       | 2                      |
| Reinstatements                    | 2                           | 0                       | 0                      |
| <b>TOTAL</b>                      | <b>175</b>                  | <b>160</b>              | <b>30</b>              |

*\*The number of hearings does not equal number of decisions because many decisions are held over from the previous year due to the time required in the preparation of cases for disability hearings and are not reported.*

## HEARING OFFICER REPORT FOUR-YEAR COMPARISON





## INVESTMENT DIVISION

### *Dedicated to securing, protecting and prudently investing the pension trust assets*

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the seventy years since its inception. The Retirement System's goal, however, has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2003, approximately 21.64% of SFERS trust assets were managed internally, including \$641.6 million in domestic bonds and \$1.63 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including global and domestic fixed income, international and domestic equities, real estate and alternative investments.

### **Investment Performance Highlights for Fiscal Year Ended June 30, 2003**

For the Fiscal year ended June 30, 2003, the Investment portfolio of the Retirement System experienced the effects of continued turbulence in the capital markets. The stellar returns of the Fixed income portfolios allowed total fund returns to remain in plus territory, achieving a total rate of return for the fiscal year of 2.82%. Real Estate turned in a modest 4.7% return for the year, while Equities (both Domestic and International) and Alternative Investments both posted negative results.

#### ◆ **Equity**

The combined U.S. Equity portfolio returned -1.82% versus the Russell 3000 benchmark return of 0.77%. While in absolute terms this performance was a substantial improvement over the prior fiscal year return of -13.3%, under performance by a few active managers created a substantial drag on the Fund versus the Russell 3000 benchmark. The non-U.S. Equity composite declined by -4.77% versus the international benchmark return of -6.06%. The Alternative Asset portfolio reported a -11.74% return for the year compared with its benchmark's return of 6.25% (S & P 500 Index + 6% through 12/31/02, plus 5% thereafter).

#### ◆ **Fixed Income**

A continued weak economy and accommodative monetary policy due to fears of deflationary pressures combined to lower interest rates to levels not seen in over thirty years. As a result, the Fixed Income asset class had the best performance within the fund, turning in a stellar 16.1% rate of return for the fiscal year ended June 30 (versus the benchmark Lehman Universal/Aggregate return of 11.51%). Domestic Fixed Income returns of 15.4% for the Fiscal Year far surpassed expectations and exposure to Global Fixed Income securities enhanced the return further, providing a 17.7% rate of return for the Fiscal Year. Staff concentrated on the enhancement of internal systems focused on more efficient monitoring of compliance with prescribed investment manager guidelines and more effective managing of the Internal Fixed Income Portfolio.





## INVESTMENT DIVISION (Continued)

### ◆ Alternative Investments

Portfolio Advisor's first assignment was to conduct a strategic review of the alternative investment program, to be completed early in Fiscal 2004. Given the declining returns of the equity markets and the inability to tap capital markets, the Initial Public Offering (IPO) market, a primary vehicle for realizing returns in Private Equity, essentially "dried up", with little activity throughout the Fiscal Year. As a result, the Fund revised the benchmark return for the asset class, from S&P500 plus 600 basis points (6%), to S&P 500 plus 500 basis points (5%).

The declining equity market also allowed the Fund to maintain the target of 12% allocated to the Alternative portfolio. As a result, the Fund's pace of new investments slowed dramatically during the fiscal year.

### ◆ Real Estate

Low interest rates have contributed to real estate commercial market performance in spite of lower demand and increased vacancies. Presently, it is staff's belief that institutional real estate markets are not in equilibrium and will recover once jobs are added to the economic recovery and demand for space returns. The performance of SFERS' real estate portfolio has exceeded the National Property Index benchmark for the one-year, three-year and five-year periods. The Plan's real estate portfolio should continue to show stabilized performance and continue to outperform its benchmark.

While the investment returns for the past Fiscal Year were disappointing, on a longer term basis, the investment performance for SFERS has been very strong on both an absolute and relative basis as shown in the table on the next page:



# INVESTMENT PORTFOLIO PERFORMANCE

## ANNUALIZED RETURNS FOR THE PERIODS ENDING 6/30/2003

|                                                                                 | One Year         | 3 Years           | 5 Years          |
|---------------------------------------------------------------------------------|------------------|-------------------|------------------|
| Domestic Equity<br>(benchmark: Russell 3000)                                    | -1.82%<br>0.77%  | -9.83%<br>-10.47% | -0.65%<br>-1.13% |
| International Equity<br>(benchmark: MSCI ACWI Free ex US)                       | -4.77%<br>-4.19% | 14.98%<br>-12.48% | -0.04%<br>-2.81% |
| Domestic Fixed Income<br>(benchmark: Lehman Universal)                          | 15.44%<br>11.51% | 11.41%<br>10.01%  | 8.41%<br>7.50%   |
| Global Fixed Income<br>(benchmark: Lehman Global)                               | 17.70%<br>9.02%  | 10.81%<br>6.75%   | 7.48%<br>5.49%   |
| Real Estate<br>(benchmark: NCREIF)                                              | 10.90%<br>7.60%  | 9.30%<br>8.20%    | 10.30%<br>9.80%  |
| Alternative Assets<br>(benchmark: S&P + 6% through 12/31/02 plus 5% thereafter) | -11.74%<br>6.25% | -14.40%<br>-5.20% | 9.41%<br>4.39%   |
| TOTAL Fund<br>(weighted policy benchmark)                                       | 2.82%<br>3.93%   | 4.16%<br>-3.02%   | 3.98%<br>2.55%   |

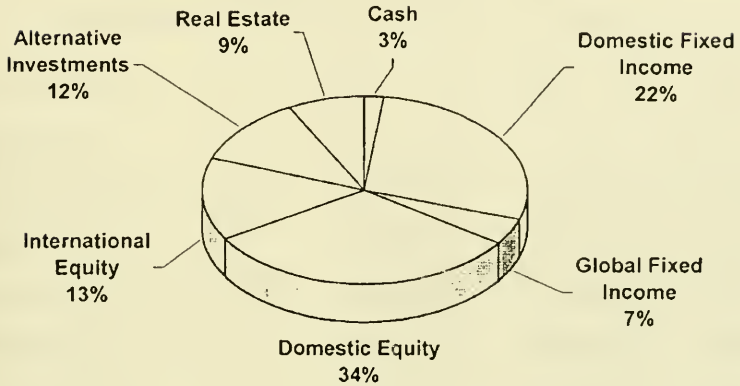
Source: Real Estate returns as calculated by the Townsend Group. All other returns as calculated by The Northern Trust Company.

The following pages contain charts illustrating:

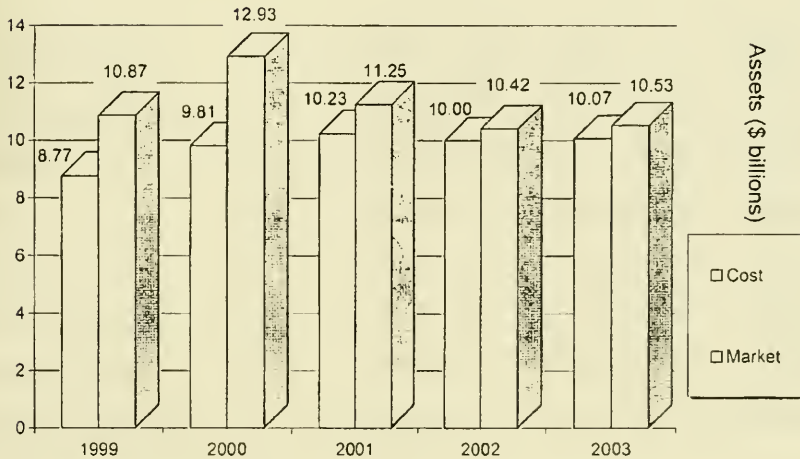
- ◆ Asset Allocation as of June 30, 2003
- ◆ SFERS Trust Fund Assets
- ◆ Investment Portfolio Performance
- ◆ Investment Earnings and Assets
- ◆ Portfolio Investment as of June 30, 2003



# ASSET ALLOCATION AS OF JUNE 30, 2003 - MARKET VALUE



## PENSION FUND NET ASSETS





**INVESTMENT EARNINGS AND ASSETS**  
**THREE YEAR HISTORY**  
 (NOT INCLUDING ASSETS RECEIVABLE BUT NOT YET INVESTED)

Fiscal Year Ended June 30:

| 2003 | 2002 | 2001 |
|------|------|------|
|------|------|------|

Investment Earnings

|                                                                                    |                       |                         |                           |
|------------------------------------------------------------------------------------|-----------------------|-------------------------|---------------------------|
| Equity Dividend Income                                                             | \$ 73,414,536         | \$ 63,875,140           | \$ 65,121,941             |
| Real Estate Income                                                                 | 45,588,220            | 48,951,277              | 48,987,091                |
| Alternative Investment Income                                                      | 2,082,909             | (6,686,655)             | (11,172,920)              |
| Realized Gains/(Loss)                                                              | (57,840,866)          | (324,762,200)           | 360,191,823               |
| Unrealized Gains/(Loss)                                                            | 181,844,163           | (539,134,907)           | (2,119,255,360)           |
| Other Income: Interest, Securities Lending, Dollar Roll and Recaptured Commissions | 182,580,112           | 224,561,374             | 256,017,416               |
| <u>Total Investment Earnings</u>                                                   | <u>\$ 427,669,074</u> | <u>(\$ 533,195,971)</u> | <u>(\$ 1,400,110,009)</u> |

Fiscal Year Ended June 30:

| 2003 | 2002 | 2001 |
|------|------|------|
|------|------|------|

Portfolio Assets - Fair Value

|                                      |                          |                          |                          |
|--------------------------------------|--------------------------|--------------------------|--------------------------|
| Fixed Income                         | \$ 3,015,932,047         | \$ 3,374,601,919         | \$ 3,402,051,535         |
| Equities                             | 5,002,450,859            | 4,796,110,459            | 5,361,633,163            |
| Real Estate                          | 953,533,290              | 820,844,105              | 875,014,860              |
| Alternative Investments              | 1,249,167,293            | 1,218,142,257            | 1,363,120,151            |
| Money Market Assets                  | 305,012,031              | 203,444,843              | 244,519,844              |
| <u>Total Fair Value of Portfolio</u> | <u>\$ 10,526,095,520</u> | <u>\$ 10,413,143,583</u> | <u>\$ 11,246,339,553</u> |





# SAN FRANCISCO CITY AND COUNTY EMPLOYEE RETIREMENT SYSTEM

## SUMMARY OF ASSETS AS OF JUNE 30, 2003

| Category                           | Cost                        | % of Total     | Market                      | % of Total     |
|------------------------------------|-----------------------------|----------------|-----------------------------|----------------|
| <b>Cash &amp; Cash Equivalents</b> | \$468,308,137.92            | 4.65%          | \$305,012,030.68            | 2.90%          |
| <b>EQUITIES</b>                    |                             |                |                             |                |
| Basic industries                   | 163,740,143.68              | 1.63%          | 172,688,654.63              | 1.64%          |
| Capital goods industries           | 114,590,134.70              | 1.14%          | 159,257,741.55              | 1.51%          |
| Consumer durables                  | 56,721,536.37               | 0.56%          | 54,612,534.97               | 0.52%          |
| Consumer non-durables & services   | 815,946,918.82              | 8.10%          | 1,026,702,830.05            | 9.75%          |
| Energy                             | 140,317,903.24              | 1.39%          | 161,914,080.38              | 1.54%          |
| Financial services                 | 511,271,873.77              | 5.08%          | 630,091,072.67              | 5.99%          |
| Miscellaneous                      | 178,017,098.94              | 1.77%          | 579,037,817.38              | 5.50%          |
| Technology                         | 421,362,389.36              | 4.18%          | 413,260,357.11              | 3.93%          |
| Utilities                          | 465,897,484.09              | 4.63%          | 411,977,185.24              | 3.91%          |
| Foreign Stock                      | 1,335,908,074.42            | 13.26%         | 1,392,908,584.96            | 13.23%         |
| <b>EQUITIES TOTAL</b>              | <b>4,203,773,557.39</b>     | <b>41.74%</b>  | <b>5,002,450,858.94</b>     | <b>47.52%</b>  |
| <b>FIXED INCOME</b>                |                             |                |                             |                |
| Basic industries                   | 132,032,721.71              | 1.31%          | 143,592,275.54              | 1.36%          |
| Capital goods industries           | 25,430,686.02               | 0.25%          | 29,325,999.15               | 0.28%          |
| Consumer durables                  | 6,454,880.21                | 0.06%          | 6,575,632.65                | 0.06%          |
| Consumer non durables & services   | 117,768,815.83              | 1.17%          | 115,879,887.97              | 1.10%          |
| Energy                             | 10,123,056.64               | 0.10%          | 10,622,570.25               | 0.10%          |
| Financial services                 | 625,672,753.04              | 6.21%          | 665,073,716.83              | 6.32%          |
| Miscellaneous                      | 173,957,957.14              | 1.73%          | 176,472,482.27              | 1.68%          |
| Mortgages                          | 116,610,116.95              | 1.16%          | 122,857,533.03              | 1.17%          |
| Technology                         | 29,256,853.13               | 0.29%          | 25,457,667.31               | 0.24%          |
| US Government                      | 984,714,557.94              | 9.78%          | 895,163,980.82              | 8.50%          |
| Utilities                          | 42,472,531.30               | 0.42%          | 46,108,008.88               | 0.44%          |
| Foreign government and corporate   | 699,794,951.51              | 6.95%          | 778,802,292.76              | 7.40%          |
| <b>FIXED INCOME TOTAL</b>          | <b>2,964,289,881.42</b>     | <b>29.43%</b>  | <b>3,015,932,047.46</b>     | <b>28.65%</b>  |
| <b>OTHER INVESTMENTS</b>           |                             |                |                             |                |
| Real Estate                        | 893,816,573.57              | 8.87%          | 953,533,290.00              | 9.06%          |
| Venture Capital & Partnerships     | 1,541,889,183.33            | 15.31%         | 1,249,167,293.00            | 11.87%         |
| <b>OTHER INVESTMENTS TOTAL</b>     | <b>2,435,705,756.90</b>     | <b>24.18%</b>  | <b>2,202,700,583.00</b>     | <b>21.87%</b>  |
| <b>GRAND TOTAL</b>                 | <b>\$ 10,072,077,333.63</b> | <b>100.00%</b> | <b>\$ 10,526,095,520.08</b> | <b>100.00%</b> |



## RETIREMENT SERVICES DIVISION

### *Administering mandated benefit programs and providing promised benefits*

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement counseling.

### **SFERS Plan Membership**

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of multiple tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current Firefighter Plan and Police Plan benefits are established by Charter amendment passed in November 2002 and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000. Miscellaneous Plan members have been covered under the Social Security System since September 1959 (City Charter §8.514).

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco. Plan membership is in effect as long as member contributions remain on deposit with SFERS.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems.

In 1968, deputized personnel of the Sheriff's Department were authorized to transfer to the State of California Public Employees' Retirement System (CalPERS). Airport Police and Institutional Police personnel were authorized to transfer to CalPERS in 1984 and 1985, respectively. District Attorney Investigators similarly were authorized to transfer to CalPERS in 1986.

In 1972, schoolteachers were authorized to transfer to the State Teachers Retirement System (STRS).

On September 1, 1990, employees who were Adult and Juvenile Probation Officers on that date became CalPERS members for all prospective service rendered in qualified job classes. Past service credit was transferred for most members in September 1996.

On September 1, 1995, Retirement System membership rules were changed: employees who had earned not less than 1040 hours of compensation during any 12-month period became eligible for retirement membership on the first day of the pay period following the payperiod in which the member earns 1040 hours of compensation.

On December 27, 1997, Airport Police Officers became members of the SFERS under City Charter §8.559 and §8.586 (Police New Plan).



On February 21, 1998, Miscellaneous Plan members in paramedic job classes who were members of SFERS under City Charter §§8.509 and 8.584, became members of SFERS under City Charter §8.588 (Fire New Plan).

On January 1, 2003, Old Plan Firefighter and Old Plan Police members were eligible to become members of SFERS under City Charter §§8.597 and 8.595 respectively, while New Plan Firefighter and New Plan Police members automatically became members of SFERS under City Charter §§8.598 and 8.596.

Other Plan Membership Charter References:

| CHARTER SECTION | EMPLOYEE GROUP                                                                                                        |
|-----------------|-----------------------------------------------------------------------------------------------------------------------|
| 8.508-1         | Teachers – STRS                                                                                                       |
| 8.505           | Port Employees – CalPERS                                                                                              |
| 8.506           | Sheriff's Deputies – CalPERS                                                                                          |
| 8.506-2         | Airport Police Officers, Institutional Police Officers, District Attorney Investigators, Probation Officers – CalPERS |
| 8.506-3         | Housing Authority Police – CalPERS                                                                                    |



## SFERS Membership

SFERS active membership falls within three categories:

- **Active Members** who are currently on City and County Payroll
- **Vested Members** who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
- **Reciprocal Members** who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2003, there were 30,024 members of the Miscellaneous Plans, 2,309 members of the Police Plans and 1,825 members of the Firefighter Plans.

### SFERS ACTIVE MEMBERSHIP AS OF JUNE 30, 2003

| PLAN MEMBERSHIP GROUP                                       | NUMBER OF ACTIVE MEMBERS |            |            |               |
|-------------------------------------------------------------|--------------------------|------------|------------|---------------|
|                                                             | ACTIVE                   | VESTED     | RECIPROCAL | TOTAL         |
| Old Miscellaneous Plan members before November 2, 1976      | 1,892                    | 43         | 4          | 1,939         |
| New Miscellaneous Plan members on or after November 2, 1976 | 26,610                   | 858        | 617        | 28,085        |
| Old Police Plan members before November 2, 1976             | 189                      | 1          | 0          | 190           |
| New Police Plan members on or after November 2, 1976        | 2,071                    | 31         | 17         | 2,119         |
| Old Firefighter Plan members before November 2, 1976        | 229                      | 0          | 0          | 229           |
| New Firefighter Plan members on or after November 2, 1976   | 1,582                    | 9          | 5          | 1,596         |
| <b>TOTALS:</b>                                              | <b>32,573</b>            | <b>942</b> | <b>643</b> | <b>34,158</b> |

Miscellaneous Plan members comprise approximately 87.9% of the total SFERS Plan membership, with approximately 6.5% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.8% and 5.3% of the total membership, respectively.

Miscellaneous Plan members are members of the Social Security System (City Charter § 8.514). Social Security coverage was first made available to City and County employees in September 1959. Members covered under Social Security may elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members will have account shortages and will have reduced pensions on retirement if the shortages are not paid prior to retirement.





## EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES AS A PERCENTAGE OF COVERED PAYROLL

| COVERED PLAN YEAR                | POLICE | FIREFIGHTER | MISCELLANEOUS |
|----------------------------------|--------|-------------|---------------|
| 1995-1996 (1 <sup>st</sup> half) | 14.79% | 12.44%      | 4.98%         |
| 1995-1996 (2 <sup>nd</sup> half) | 12.69% | 10.58%      | 4.29%         |
| 1996-1997 (1 <sup>st</sup> half) | 0%     | 0%          | 1.83%         |
| 1996-1997 (2 <sup>nd</sup> half) | 0%     | 0%          | 0%            |
| 1998-2003                        | 0%     | 0%          | 0%            |

Note: Rates of contribution are composite rates for Old and New groups.

## EMPLOYEE CONTRIBUTION RATES AS A PERCENTAGE OF COVERED PAYROLL

| PLAN MEMBERSHIP GROUP | RATE OF CONTRIBUTION |
|-----------------------|----------------------|
| Miscellaneous (Old)*  | 8.00%                |
| Miscellaneous (New)   | 7.50%                |
| Police (Old)          | 7.00%                |
| Police (New)          | 7.50%                |
| Firefighter (Old)     | 7.00%                |
| Firefighter (New)     | 7.50%                |

\*Contributions for Old Plan Miscellaneous Employees (City Charter § 8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.



## SFERS Retirement Services

The following table summarizes the major activities of the SFERS Retirement Services Division during Plan Years 2001-2002 and 2002-2003:

| ACTIVITY                                               | 2001-2002 | 2002-2003 |
|--------------------------------------------------------|-----------|-----------|
| Retirement Appointments                                | 1582      | 1669      |
| Retirement Applications Processed                      | 903       | 950       |
| Buyback Appointments                                   | N/A       | 1597      |
| Personnel Transactions:                                | 2405      | 1703      |
| New Members (New Hires)                                | 1351      | 844       |
| New Members (1040 hours membership)                    | 709       | 591       |
| Rehires                                                | 140       | 127       |
| Fire Recruits                                          | 64        | 48        |
| Police Recruits                                        | 92        | 84        |
| Sheriff Recruits                                       | 49        | 9         |
| Visitors                                               | 16,321    | 11,782    |
| Incoming Correspondence                                | 17,262    | 13,698    |
| Home Visits                                            | 20        | 24        |
| Group Presentations                                    | 20        | 18        |
| Beneficiary Changes                                    | 1262      | 1351      |
| Refund Packets                                         | 1593      | 1283      |
| Verification of Pension or Benefit Data                | 494       | 1224      |
| Electronic Fund Transfer (new and changes)             | 1978      | 2321      |
| Other activities (address changes, name changes, etc.) | 1995      | 2193      |
| Pre-retirement Seminars                                | 5         | 4         |
| Registered Attendees at Pre-retirement Seminars        | 801       | 748       |
| Mid-career Retirement Planning Seminars                | 1         | 2         |
| Registered Attendees at Mid-Career Seminars            | 83        | 198       |
| New Member Retirement Planning Seminars                | 0         | 1         |
| Registered Attendees at New Member Seminars            | 0         | 98        |

Retirement appointments increased 5.5% and retirement applications processed increased 5.2% in Plan Year 2002-2003 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted four pre-retirement seminars during Plan Year 2002-2003 that provided individualized benefit counseling for over 700 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career retirement planning seminar and one new member retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in a retirement seminar sponsored by the Police Officers Association.

**SFERS Plan Member Communications:** During Plan Year 2002-2003, SFERS Retirement Services Division produced and distributed over 34,100 Annual Member Statements to active SFERS members.



## SFERS Retirement Statistics for Plan Year Ended June 30, 2003

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2002-2003, as well as benefits payment summaries and comparisons:

### New Retirements Processed During Plan Year Ended June 30, 2003

| MEMBER GROUP   | SERVICE      | VESTING    | INDUSTRIAL DISABILITY | ORDINARY DISABILITY | TOTAL      |
|----------------|--------------|------------|-----------------------|---------------------|------------|
| Miscellaneous  | 535          | 157        | N/A                   | 58                  | 750        |
| Firefighter    | 113          | 0          | 15                    | 0                   | 128        |
| Police         | 81           | 2          | 5                     | 0                   | 88         |
| <b>TOTALS:</b> | <b>* 729</b> | <b>159</b> | <b>20</b>             | <b>58</b>           | <b>966</b> |

\*Total service retirements in Plan Year 2002-2003 includes applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

The total number of new retirements processed in Plan Year 2002-2003 was 9.6% higher than retirements processed in Plan Year 2001-2002. Service retirements represent 75.5% of the total of new retirements processed.

Miscellaneous retirements represented 77.6% of the total retirements processed in Plan Year 2002-2003, a decrease from 87.3% in Plan Year 2001-2002.

Firefighter retirements represented 13.3% of the total retirements processed in Plan Year 2002-2003, an increase from 6.8% in Plan Year 2001-2002.

Police retirements represented 9.1% of the total retirements processed in Plan Year 2002-2003, an increase from 5.9% in Plan Year 2001-2002.

### Miscellaneous Plan Members Plan Year Ended June 30, 2003 Service Credit at Retirement

| YEARS OF SERVICE | SERVICE RETIREMENTS | VESTING RETIREMENTS | ORDINARY DISABILITY | TOTAL         | PERCENT OF TOTAL |
|------------------|---------------------|---------------------|---------------------|---------------|------------------|
| 0-5              | 13                  | 2                   | 0                   | 15            | 2.0%             |
| 6-10             | 10                  | 73                  | 0                   | 83            | 11.1%            |
| 11-15            | 77                  | 42                  | 13                  | 132           | 17.6%            |
| 16-20            | 85                  | 35                  | 25                  | 145           | 19.3%            |
| 21-25            | 98                  | 2                   | 8                   | 108           | 14.4%            |
| 26-30            | 112                 | 3                   | 9                   | 124           | 16.5%            |
| 31-35            | 86                  | 0                   | 3                   | 89            | 11.9%            |
| 36-40            | 49                  | 0                   | 0                   | 49            | 6.5%             |
| Over 40          | 5                   | 0                   | 0                   | 5             | 0.7%             |
| <b>TOTAL</b>     | <b>535</b>          | <b>157</b>          | <b>58</b>           | <b>750</b>    | <b>100.0%</b>    |
| <b>PERCENT</b>   | <b>71.3%</b>        | <b>20.9%</b>        | <b>7.7%</b>         | <b>100.0%</b> |                  |



Approximately 64.4% of the total Miscellaneous Plan retirements had less than 26 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2002-2003 was 20.7 years.

Miscellaneous Plan service retirees were credited with an average of 23.6 years of service while those who retired for ordinary disability were credited with an average of 19.3 years of service.

#### AGE AT RETIREMENT

| AGE      | SERVICE | VESTING | ORDINARY<br>DISABILITY | TOTAL | PERCENT OF<br>TOTAL |
|----------|---------|---------|------------------------|-------|---------------------|
| Under 55 | 38      | 97      | 36                     | 171   | 22.8%               |
| 55-60    | 135     | 45      | 22                     | 202   | 26.9%               |
| 61-65    | 232     | 9       | 0                      | 241   | 32.1%               |
| Over 65  | 130     | 6       | 0                      | 136   | 18.1%               |
| TOTAL    | 535     | 157     | 58                     | 750   | 100.0%              |

The average age of all Miscellaneous Plan members who retired in Plan Year 2002-2003 was 59.8 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 52.4 years.





# POLICE AND FIREFIGHTER PLAN MEMBERS PLAN YEAR ENDED JUNE 30, 2003

## SERVICE CREDIT AT RETIREMENT For Plan Year Ended June 30, 2003

| YEARS OF SERVICE | SERVICE RETIREMENTS | VESTING RETIREMENTS | INDUSTRIAL DISABILITY* | TOTAL       | PERCENT OF TOTAL |
|------------------|---------------------|---------------------|------------------------|-------------|------------------|
| 0-5              | 1                   | 0                   | 4                      | 5           | 2.3%             |
| 6-10             | 7                   | 0                   | 1                      | 8           | 3.7%             |
| 11-15            | 0                   | 0                   | 2                      | 2           | 0.9%             |
| 16-20            | 2                   | 1                   | 0                      | 3           | 1.4%             |
| 21-25            | 11                  | 1                   | 0                      | 12          | 5.6%             |
| 26-30            | 80                  | 0                   | 6                      | 86          | 39.8%            |
| 31-35            | 80                  | 0                   | 6                      | 86          | 39.8%            |
| 36-40            | 13                  | 0                   | 1                      | 14          | 6.5%             |
| <b>TOTAL</b>     | <b>194</b>          | <b>2</b>            | <b>20</b>              | <b>216</b>  | <b>100%</b>      |
| <b>PERCENT</b>   | <b>89.8%</b>        | <b>0.9%</b>         | <b>9.3%</b>            | <b>100%</b> |                  |

\* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2002-2003

Approximately 13.9% of the total Police and Firefighter Plan retirements had less than 26 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2002-2003 was 28.4 years.

Police and Firefighter Plan service retirees were credited with an average of 29.2 years of service while those who retired for industrial disability were credited with an average of 22.3 years of service.

## AGE AT RETIREMENT FOR PLAN YEAR ENDED JUNE 30, 2003

| AGE          | SERVICE    | VESTING  | INDUSTRIAL DISABILITY | TOTAL      | PERCENT OF TOTAL |
|--------------|------------|----------|-----------------------|------------|------------------|
| Under 55     | 50         | 2        | 13                    | 65         | 30.1%            |
| 55-60        | 119        | 0        | 5                     | 124        | 57.4%            |
| 61-65        | 20         | 0        | 2                     | 22         | 10.2%            |
| Over 65      | 5          | 0        | 0                     | 5          | 2.3%             |
| <b>TOTAL</b> | <b>194</b> | <b>2</b> | <b>20</b>             | <b>216</b> | <b>100.0%</b>    |

The average age of all Police and Firefighter Plan members who retired in Plan Year 2002-2003 was 56.2 years.



## TOTAL RETIREMENT ALLOWANCES AS OF JUNE 30, 2003 RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

| MEMBER CATEGORY                                  | SERVICE RETIREMENTS | DISABILITY RETIREMENTS* | DEATH IN LINE OF DUTY | TOTAL  |
|--------------------------------------------------|---------------------|-------------------------|-----------------------|--------|
| Number of Retirement Allowances as of 6/30/2003: |                     |                         |                       |        |
| MISCELLANEOUS                                    | 12,576              | 1,813                   | N/A                   | 14,389 |
| Member                                           | 10,346              | 1,284                   | N/A                   | 11,630 |
| Continuation                                     | 2,230               | 529                     | N/A                   | 2,759  |
| FIREFIGHTER                                      | 833                 | 882                     | 46                    | 1,761  |
| Member                                           | 578                 | 614                     | -                     | 1,192  |
| Continuation                                     | 255                 | 268                     | 46                    | 569    |
| POLICE                                           | 1,171               | 763                     | 51                    | 1,985  |
| Member                                           | 871                 | 489                     | -                     | 1,360  |
| Continuation                                     | 300                 | 274                     | 51                    | 625    |
| TOTAL                                            | 14,580              | 3,458                   | 97                    | 18,135 |

\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

As of June 30, 2003, the total number of retirement allowances paid to retired members represented 78.2% of the total allowances paid; continuation allowances represented 21.8% of the total allowances paid.

## MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2003 RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

| MEMBER CATEGORY                                          | SERVICE RETIREMENTS | DISABILITY RETIREMENTS* | DEATH IN LINE OF DUTY | TOTAL         |
|----------------------------------------------------------|---------------------|-------------------------|-----------------------|---------------|
| Monthly Retirement Benefits Payable as of June 30, 2003: |                     |                         |                       |               |
| MISCELLANEOUS                                            | \$ 21,293,430       | \$ 2,251,001            | N/A                   | \$ 23,544,431 |
| FIREFIGHTER                                              | 3,647,236           | 3,545,324               | \$ 182,337            | 7,374,897     |
| POLICE                                                   | 4,668,422           | 2,386,515               | 150,504               | 7,205,441     |
| TOTAL                                                    | \$ 29,609,088       | \$ 8,182,840            | \$ 332,841            | \$ 38,124,769 |

\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 61.8% of the total monthly retirement allowances paid during Plan Year 2002-2003.

Monthly retirement allowances paid to service retirees represented 77.7% of the total monthly retirement allowances and monthly disability benefits represented 21.5% of the total monthly retirement allowances paid during Plan Year 2002-2003.



## DEATH BENEFITS PAID – 3 YEAR COMPARISON

| PLAN YEAR                                             | 2002-2003   | 2001-2002  | 2000-2001  |
|-------------------------------------------------------|-------------|------------|------------|
| <b>NUMBER OF DEATHS:</b>                              |             |            |            |
| Active Members                                        | 57          | 52         | 77         |
| Retired Members                                       | 513         | 568        | 528        |
| Continuants                                           | 214         | 183        | 172        |
| <b>TOTAL</b>                                          | <b>784</b>  | <b>803</b> | <b>777</b> |
| <b>NUMBER OF DEATH BENEFITS PAID:</b>                 |             |            |            |
| <b>DUE TO ACTIVE MEMBER DEATHS</b>                    |             |            |            |
| Refund of Contributions                               | 72          | 63         | 77         |
| Industrial Death Allowances                           | 0           | 0          | 2          |
| 6 Months Earnable Salary                              | 70          | 57         | 74         |
| <b>SUBTOTAL</b>                                       | <b>142</b>  | <b>120</b> | <b>153</b> |
| <b>DUE TO RETIRED MEMBER DEATHS</b>                   |             |            |            |
| Continuation                                          | 250         | 249        | 231        |
| Option 1 (Refund of Member Accumulated Contributions) | 42          | 30         | 49         |
| \$100/Year for Each Year of Service (Maximum \$3,000) | 618         | 519        | 522        |
| <b>SUBTOTAL</b>                                       | <b>910</b>  | <b>798</b> | <b>802</b> |
| <b>TOTAL</b>                                          | <b>1052</b> | <b>918</b> | <b>955</b> |

The number of death notices received during Plan Year 2002-2003 decreased by 2.4% from Plan Year 2001-2002.

There was an 18.3% increase in the number of benefits paid due to the death of active members in Plan Year 2002-2003 from the previous Plan Year. In Plan Year 2002-2003, the total number of death benefits payments processed due to the deaths of active and retired members increased 14.6% over the previous Plan Year.



## WITHDRAWAL OF CONTRIBUTIONS – 3 YEAR COMPARISON

|                 | MEMBER<br>ACCOUNTS | PERCENT<br>VARIANCE<br>PRIOR YEAR | AMOUNT<br>WITHDRAWN | PERCENT<br>VARIANCE<br>PRIOR YEAR |
|-----------------|--------------------|-----------------------------------|---------------------|-----------------------------------|
| As of 6/30/2003 |                    |                                   |                     |                                   |
| Miscellaneous   | 817                |                                   | \$ 7,955,804        |                                   |
| Firefighter     | 4                  |                                   | 104,476             |                                   |
| Police          | 16                 |                                   | 153,997             |                                   |
| <b>TOTAL</b>    | <b>837</b>         | <b>(36.9%)</b>                    | <b>\$ 8,214,277</b> | <b>(15.2%)</b>                    |
| As of 6/30/2002 |                    |                                   |                     |                                   |
| Miscellaneous   | 1280               |                                   | \$ 9,232,179        |                                   |
| Firefighter     | 13                 |                                   | 140,111             |                                   |
| Police          | 33                 |                                   | 318,718             |                                   |
| <b>TOTAL</b>    | <b>1326</b>        | <b>(3.8%)</b>                     | <b>\$ 9,691,008</b> | <b>(8.5%)</b>                     |
| As of 6/30/2001 |                    |                                   |                     |                                   |
| Miscellaneous   | 1334               |                                   | \$10,221,516        |                                   |
| Firefighter     | 13                 |                                   | 223,032             |                                   |
| Police          | 31                 |                                   | 145,789             |                                   |
| <b>TOTAL</b>    | <b>1378</b>        | <b>116.0%</b>                     | <b>\$10,590,337</b> | <b>50.5%</b>                      |





## Fiscal Division

### *Administering mandated benefit programs and providing promised benefits*

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information include:

- Net Assets held in trust for Pension Benefits
- Statement of Changes in Plan Net Assets
- Actuarial Report and Historical Information
- Disclosures as required by Governmental Accounting Standards Board (GASB)

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Budget and appropriations control
- General ledger and all financial reporting

In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the employees' Retirement System is adequately funded at all times.

The accompanying audited statements of net assets available for pension benefits as of June 30, 2003, and 2002 and the related statements of changes in net assets held in trust for pension benefits are presented to provide information on the financial status of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2003. We encourage readers who may have questions regarding any of the financial information provided to request from SFERS the full set of audited *Financial Statements and Supplemental Schedule* as prepared by the independent auditors.



**SFERS ACTUAL ADMINISTRATIVE EXPENDITURES  
3 YEAR COMPARISON  
RETIREMENT SERVICES/ADMINISTRATION DIVISIONS**

| Description of<br>Expenditures | Retirement Services/Administration |                      |                      |
|--------------------------------|------------------------------------|----------------------|----------------------|
|                                | 2002-2003                          | 2001-2002            | 2000-2001            |
| Personnel Services             | \$ 4,500,386                       | \$ 4,061,839         | \$ 3,906,243         |
| Equipment Purchase             | 74,669                             | 337,752              | 105,933              |
| Materials and Supplies         | 88,733                             | 47,862               | 49,831               |
| Services of Other Departments  | 4,941,764                          | 6,174,528            | 5,978,896            |
| Other Services                 | 1,139,438                          | 1,204,578            | 1,214,225            |
| <b>TOTAL</b>                   | <b>\$ 10,744,990</b>               | <b>\$ 11,826,559</b> | <b>\$ 11,255,128</b> |

**SFERS ACTUAL ADMINISTRATIVE EXPENDITURES  
3 YEAR COMPARISON  
INVESTMENT DIVISION**

| Description of<br>Expenditures | Investment Division  |                      |                      |
|--------------------------------|----------------------|----------------------|----------------------|
|                                | 2002-2003            | 2001-2002            | 2000-2001            |
| Personnel Services             | \$ 1,427,269         | \$ 1,499,912         | \$ 1,328,812         |
| Equipment Purchase             | 7,105                | 21,654               | 39,431               |
| Materials and Supplies         | 6,660                | 10,024               | 12,557               |
| Services of Other Departments  | 293,847              | 320,148              | 754,095              |
| Other Services                 | 18,955,247           | 16,146,391           | 21,241,255           |
| <b>TOTAL</b>                   | <b>\$ 20,690,128</b> | <b>\$ 17,998,129</b> | <b>\$ 23,376,150</b> |

**SFERS ACTUAL ADMINISTRATIVE EXPENDITURES  
3 YEAR COMPARISON  
ALL DIVISIONS**

|                    |                      |                      |                      |
|--------------------|----------------------|----------------------|----------------------|
| <b>GRAND TOTAL</b> | <b>\$ 31,435,118</b> | <b>\$ 29,824,688</b> | <b>\$ 34,631,278</b> |
|--------------------|----------------------|----------------------|----------------------|



**SFERS PENSION FUND INVESTMENT INCOME**  
**FISCAL YEAR 2002-2003**

|                                                 | REALIZED<br>GAIN/LOSS  | UNREALIZED<br>GAIN/LOSS | TOTAL                 |
|-------------------------------------------------|------------------------|-------------------------|-----------------------|
| <b>INCOME</b>                                   |                        |                         |                       |
| City and County Contributions                   |                        |                         | \$ -                  |
| Employee Contributions                          |                        |                         | 182,069,864           |
| Interest Earned                                 |                        |                         | 174,461,071           |
| Dividends Earned                                |                        |                         | 73,414,536            |
| Securities Lending Income-Net                   |                        |                         | 6,510,040             |
| Dollar Roll Income – Net                        |                        |                         | 1,158,461             |
| Recaptured Commission Income – Net              |                        |                         | 450,540               |
| Real Estate Income                              |                        |                         | 45,588,220            |
| Alternative Investment Income                   |                        |                         | 2,082,909             |
| Investment Expenses                             |                        |                         | (21,453,915)          |
| <b>TOTAL INCOME:</b>                            |                        |                         | <b>\$ 464,281,726</b> |
| <b>NET APPRECIATION IN FAIR VALUES</b>          |                        |                         |                       |
| Short-Term Securities                           | \$ (34,981)            | \$ 4,855,331            | \$ 4,320,350          |
| Equities                                        | (275,040,548)          | (32,567,058)            | (307,607,606)         |
| Debt Securities                                 | 124,291,831            | 171,396,640             | 295,688,471           |
| Real Estate                                     | 6,446,610              | (4,778,293)             | 1,688,317             |
| Venture Capital                                 | (9,900,640)            | (26,581,461)            | (36,482,101)          |
| Other Assets                                    | 96,396,862             | 69,519,004              | 165,915,866           |
| <b>TOTAL NET APPRECIATION:</b>                  | <b>\$ (57,840,866)</b> | <b>\$ 181,844,163</b>   | <b>\$ 124,003,297</b> |
| <b>TOTAL INCOME including NET APPRECIATION:</b> |                        |                         | <b>\$ 588,285,023</b> |
| <b>Increase/(Decrease) From FY 2001–2002:</b>   |                        |                         | <b>\$ 982,875,738</b> |



## SFERS PENSION FUND DISBURSEMENTS PLAN YEAR 2002-2003

| PAYMENTS/EXPENSES                                           | AMOUNT                |
|-------------------------------------------------------------|-----------------------|
| Service Retirement Payments                                 | \$ 325,822,872        |
| Disability Retirement Payments                              | 93,601,926            |
| Proposition C – Cost of Living Adjustment                   | 20,875,330            |
| Death Allowance Payments                                    | 3,621,500             |
| Death Benefits                                              | 3,676,490             |
| Normal Contributions Paid as Death Benefit                  | 3,645,171             |
| Retired Annuitant Rolls (Option 1 Death Benefit)            | 1,020,325             |
| Refunds of Contributions                                    | 8,214,277             |
| Administrative Expenses: Retirement Services/Administration | 10,744,990            |
| <b>TOTAL PAYMENTS &amp; EXPENSES:</b>                       | <b>\$ 471,222,881</b> |
| Increase/(Decrease) From FY 2001-2002:                      | \$ 35,683,982         |

## SFERS CONTRIBUTIONS – 3 YEAR COMPARISON

### Employer (City and County) Contributions

The City and County of San Francisco had not been required to make employer contributions since 1996 due to the funding status of the Plan.

### Employee Contributions

| MEMBER PLAN        | PLAN YEAR<br>2002-2003 | PLAN YEAR<br>2001-2002 | PLAN YEAR<br>2000-2001 |
|--------------------|------------------------|------------------------|------------------------|
| Miscellaneous Plan | \$ 156,350,260         | \$ 133,268,640         | \$ 124,007,174         |
| Firefighter Plan   | 11,744,300             | 10,386,844             | 9,767,082              |
| Police Plan        | 13,975,304             | 12,262,637             | 11,428,791             |
| <b>TOTAL</b>       | <b>\$ 182,069,864</b>  | <b>\$ 155,918,122</b>  | <b>\$ 145,203,047</b>  |





SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 STATEMENTS OF PLAN NET ASSETS  
 JUNE 30, 2003 AND 2002  
 Information derived from audited Financial Statements

| <u>Assets</u>                                               | <u>2003</u>         | <u>2002</u>         |
|-------------------------------------------------------------|---------------------|---------------------|
|                                                             | (in thousands)      |                     |
| Deposits                                                    | \$12,684            | \$1,298             |
| Contributions receivable – members                          | 9,175               | 8,506               |
| Investment income receivable:                               |                     |                     |
| Interest                                                    | 24,624              | 32,156              |
| Dividends                                                   | 5,106               | 4,023               |
| Securities lending                                          | 356                 | 1,025               |
| Dollar Roll                                                 | 163                 |                     |
| Receivables from brokers, general partners, others          | 122,992             | 209,530             |
| Investments at fair value                                   |                     |                     |
| Short-term bills and notes                                  | 1,161,448           | 815,165             |
| Debt securities:                                            |                     |                     |
| U. S. government securities                                 | 1,137,162           | 1,478,010           |
| Other debt securities                                       | 1,911,606           | 1,896,592           |
| Equity securities                                           | 4,715,575           | 4,796,110           |
| Real Estate                                                 | 953,533             | 820,844             |
| Venture capital                                             | 1,249,167           | 1,218,142           |
| Forward currency contracts, net                             | 2,802               |                     |
| Investments in lending agents' short term investment pool   | <u>1,107,990</u>    | <u>1,461,506</u>    |
| Total investments                                           | <u>12,239,283</u>   | <u>12,486,369</u>   |
| Total assets                                                | <u>12,414,382</u>   | <u>12,742,907</u>   |
| <br><u>Liabilities</u>                                      |                     |                     |
| Payable to brokers                                          | 560,809             | 593,214             |
| Obligations under fixed coupon dollar repurchase agreements | 205,782             | 252,500             |
| Foreign Currency Contracts, net                             | —                   | 13,612              |
| Other liabilities                                           | 6,789               | 6,125               |
| Payable to borrowers of securities                          | <u>1,107,990</u>    | <u>1,461,506</u>    |
| Total liabilities                                           | <u>1,881,370</u>    | <u>2,326,957</u>    |
| Net assets held in trust for pension benefits               | <u>\$10,533,012</u> | <u>\$10,415,950</u> |



SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 STATEMENTS OF CHANGES IN PLAN NET ASSETS  
 YEARS ENDED JUNE 30, 2003 AND 2002  
 Information derived from audited Financial Statements

|                                                                       | <u>2003</u>    | <u>2002</u>   |
|-----------------------------------------------------------------------|----------------|---------------|
|                                                                       | (in thousands) |               |
| <b>Additions:</b>                                                     |                |               |
| Members' contributions:                                               |                |               |
| Miscellaneous                                                         | \$ 156,350     | \$ 133,269    |
| Firefighter                                                           | 13,975         | 12,263        |
| Police                                                                | 11,744         | 10,387        |
| Total Contributions                                                   | \$ 182,069     | \$ 155,919    |
| Investment income (expenses)                                          |                |               |
| Interest                                                              | \$ 174,461     | \$ 212,806    |
| Dividends                                                             | 73,415         | 63,875        |
| Net (depreciation) appreciation in fair value of investments          | 172,125        | (820,574)     |
| Securities lending income                                             | 22,288         | 35,676        |
| Fixed coupon dollar repurchase agreement income                       | 4,197          | 7,791         |
| Investment expenses                                                   | (21,454)       | (18,517)      |
| Securities lending borrower rebates and expenses                      | (15,778)       | (24,505)      |
| Fixed coupon dollar repurchase agreement finance charges and expenses | (3,038)        | (7,061)       |
| Investment gain/(loss), net                                           | \$ 406,216     | \$ (550,509)  |
| Total additions/(deductions)                                          | \$ 588,285     | \$ (394,590)  |
| <b>Deductions:</b>                                                    |                |               |
| Benefits                                                              | \$ 452,264     | \$ 413,899    |
| Refunds of contributions                                              | 8,214          | 9,814         |
| Administrative expenses                                               | 10,745         | 11,827        |
| Total Deductions                                                      | \$ 471,223     | \$ 435,540    |
| Net increase/(decrease)                                               | \$ 117,062     | \$ 830,130    |
| <b>Net assets held in trust for pension benefits:</b>                 |                |               |
| Beginning of year                                                     | \$ 10,415,950  | \$ 11,246,080 |
| End of year                                                           | \$ 10,533,012  | \$ 10,415,950 |



## Actuarial Summary

The Retirement System pays an array of benefits to members and their survivors -- service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. The Plan valuation at the beginning of the Fiscal Year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2002 data. The results were first published in December 2002.

## Assumptions and Method

The main assumptions used to measure the System's liabilities for future benefits payments were:

|                     |                                                                                 |
|---------------------|---------------------------------------------------------------------------------|
| Investment Returns  | 8.25% per year                                                                  |
| Base Wage Increases | 4.50% per year                                                                  |
| Merit and Promotion | Wage Increases<br>1.3%, approximately (varies by<br>group and years of service) |
| Retiree Mortality   | 1983 Group Annuity Mortality Table                                              |

The actuarial funding method used was as follows:

- ♦ entry age normal cost method
- ♦ unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- ♦ unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.



## Key Results

Using the method and assumptions detailed above, the key findings of the latest valuation were:

### FUNDED STATUS

|                           |                       |
|---------------------------|-----------------------|
| Actuarial Liability       | 9,415,905,000         |
| Actuarial Value of Assets | <u>11,102,516,000</u> |

|                              |                    |
|------------------------------|--------------------|
| Unfunded Liability (Surplus) | \$ <1,686,611,000> |
|------------------------------|--------------------|

|                                         |      |
|-----------------------------------------|------|
| Funded Status<br>(assets / liabilities) | 118% |
|-----------------------------------------|------|

### EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates to be paid by the City in Fiscal Year 2003-2004 were derived from the following actuarial valuation results:

|                                       |          |
|---------------------------------------|----------|
| Normal Cost                           | 13.97%   |
| Unfunded Liability & Other Costs      | (11.35)% |
| Employee Contributions                | 7.52%    |
| City Contribution Rate                | (0.42)%  |
| Board Approved City Contribution Rate | 0.0%     |





Cover Photo: Tom Paiva Photography



City & County of San Francisco

EMPLOYEES' RETIREMENT SYSTEM



#### MISSION STATEMENT

San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits

Annual Report

For Fiscal Year Ended June 30, 2004



# CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM

## *MISSION STATEMENT*

*San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits*

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**ANNUAL REPORT  
FOR FISCAL YEAR ENDED JUNE 30, 2004**

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## PRESIDENT'S MESSAGE

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### INVESTING ASSETS ● PROVIDING BENEFITS ● SERVING MEMBERS

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December, 2004

On behalf of the San Francisco Employees' Retirement System (SFERS) Board and staff, I am pleased to present the Annual Report for Fiscal Year 2003-04.

The Retirement Board and staff at SFERS work steadily to provide excellent services to our 52,156 members and their survivors without additional resources.

Below are some of the highlights affecting our members and the management of the system that occurred during the year:

- The "Early Retirement" charter amendment passed and created a new and unique demand for retirement counseling. The tightening City budget and layoff notices brought more members to our offices for counseling.
- SFERS management information system (MIS) continues to improve. This enables the retirement counselors to give more timely and up-to-date information to members applying for retirement or seeking to update their personal records. The annual statement provided to members regarding their account balances has also improved.
- We have enabled the Investment Staff to use more cost effective investment tools when rebalancing the portfolio. Our senior investment officers and consultants have worked diligently to achieve small, but significant, investment improvements in fixed income, real estate and the alternatives area of private equity.
- Our investment returns were 16.7%, which is twice the expected actuarial rate of return upon which we use to determine the liability value of all the promised benefits. This was an exceptional year and moved us to the level of \$11.9 billion. This helps keep our funded ratio at 108% (one of the highest public funds in the United States). More importantly, it will lead to paying the voter approved supplemental COLA for the Fiscal Year 2004-05 to retirees at the rate of 3% rather than 2%.
- Retirement seminars to educate active employees about their benefits increased. We continue to survey members for suggestions on how to improve these seminars and services in general. All this is part of our Communications Plan.
- The Retirement Board continues to improve our own rules of governance so the decision-making will improve. This helps set the policies for retirement counseling and investing that will benefit all the members.
- We continue to improve the Deferred Compensation savings plan that covers half of the active employees, including finding better investment choices and lowering fees for members.

The Retirement Board would like to thank our staff for their continued hard work and commitment. With best wishes,

Joe Driscoll  
Retirement Board, City and County of San Francisco

## THE RETIREMENT SYSTEM

The San Francisco Employee's Retirement System was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS § 457 plan.

Each of these benefit plans is mandated by specific San Francisco City Charter sections and/or Administrative Code provisions.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS § 457 Plan, provides participants a method of deferring from current taxation part of their salary during employment for distribution after retirement.

## THE RETIREMENT BOARD

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets once each month and reviews and approves important elements of Retirement System business, including:

## PENSION FUND INVESTMENT

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

## ACTUARIAL FUNDING

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

## ACTIVE AND RETIRED MEMBERS

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost of living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.



## ADMINISTRATION AND MANAGEMENT

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

### MEMBERS OF THE 2003-2004 SFERS RETIREMENT BOARD

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

|                                      |                                               |
|--------------------------------------|-----------------------------------------------|
| William Breall, M.D.<br>Cardiologist | Appointed Member<br>Term Ended: February 2004 |
|--------------------------------------|-----------------------------------------------|

|                                              |                                 |
|----------------------------------------------|---------------------------------|
| Al Casciato<br>Lieutenant, Police Department | Elected Member<br>February 2005 |
|----------------------------------------------|---------------------------------|

|                                                           |                                 |
|-----------------------------------------------------------|---------------------------------|
| Joseph D. Driscoll, C.F.A.<br>Lieutenant, Fire Department | Elected Member<br>February 2006 |
|-----------------------------------------------------------|---------------------------------|

|                                             |                                   |
|---------------------------------------------|-----------------------------------|
| E. David Ellington<br>Entrepreneur/Attorney | Appointed Member<br>February 2009 |
|---------------------------------------------|-----------------------------------|

|                                       |                                   |
|---------------------------------------|-----------------------------------|
| Michael Kim<br>Private Equity Partner | Appointed Member<br>February 2009 |
|---------------------------------------|-----------------------------------|

|                                                                   |                                 |
|-------------------------------------------------------------------|---------------------------------|
| Herb Meiburger, C.F.A.<br>Security Analyst, Retirement Department | Elected Member<br>February 2007 |
|-------------------------------------------------------------------|---------------------------------|

|                                                  |                                   |
|--------------------------------------------------|-----------------------------------|
| Gerardo Sandoval<br>Member, Board of Supervisors | Ex-Officio Member<br>January 2005 |
|--------------------------------------------------|-----------------------------------|

|                                                                                  |                                   |
|----------------------------------------------------------------------------------|-----------------------------------|
| Brenda Wright<br>Senior Vice President<br>Regional Manager Community Development | Appointed Member<br>February 2008 |
|----------------------------------------------------------------------------------|-----------------------------------|

# **SFERS SENIOR ADMINISTRATIVE STAFF**

## **ADMINISTRATION:**

|                        |                               |
|------------------------|-------------------------------|
| Clare M. Murphy        | Executive Director            |
| Jay Huish              | Deputy Director               |
| Carol Cypert, CRA, CRC | Deferred Compensation Manager |
| Shauna Marie Rose      | Executive Assistant           |

## **INVESTMENT DIVISION:**

|                                          |                                |
|------------------------------------------|--------------------------------|
| David Kushner, C.F.A.                    | Deputy Director of Investments |
| Carl Wilberg<br>Equities                 | Senior Investment Officer      |
| Richard Pickett<br>Fixed Income          | Senior Investment Officer      |
| Glen Schwartz<br>Alternative Investments | Senior Investment Officer      |
| Donald Holcher<br>Real Estate            | Senior Investment Officer      |

## **RETIREMENT SERVICES DIVISION:**

|               |                          |
|---------------|--------------------------|
| Maria Newport | Retirement Administrator |
|---------------|--------------------------|

## **FISCAL DIVISION:**

|            |                 |
|------------|-----------------|
| Jim Burrue | Finance Manager |
|------------|-----------------|

## **ACTUARY DIVISION:**

|                 |                |
|-----------------|----------------|
| Clare M. Murphy | Acting Actuary |
|-----------------|----------------|

# HIGHLIGHTS OF RETIREMENT BOARD ACTIVITIES FOR FISCAL YEAR 2003-2004

## ◆ GENERAL ADMINISTRATIVE HIGHLIGHTS

As in recent years the Retirement Board continued its focus on Governance Principles and Policies throughout 2003-2004. The structure of the Board committees was finalized in July and appointments to the seven committees were approved in August of 2003. The standing committees are:

- Alternative Investment Committee
- Benefit Interpretation Review Committee
- Deferred Compensation Committee
- Finance Committee
- Governance Committee
- Personnel Committee
- Public Investment Committee

Over several meetings the Board reviewed and amended the Code of Conduct and revised the Monitoring and Reporting and Travel policies. Finally, in the governance area, the Board reviewed its fiduciary compliance and development efforts.

Consistent with the Board's Business Planning policy the Board adopted its second Business Plan to direct the development of the budget for 2004-2005 and reviewed the status of initiatives established for the 2003-2004 fiscal year.

Throughout the year the Board and the Personnel Committee pursued filling the position of Actuary. Despite strenuous recruitment efforts and the identification of a highly qualified candidate, the position remains unfilled.

The March 2004 meeting marked the conclusion of 15 years of service as a Retirement Board Trustee by William S. Breall, M.D. His colleagues thanked Dr. Breall for his dedication and care in serving the participants. At the April 2004 meeting, the Board welcomed Michael Kim to its membership, and in June the Board elected Mr. Joseph Driscoll as President and Ms. Brenda Wright as Vice-President. Supervisor Gerardo Sandoval continued to serve as the Board of Supervisors designee.

During Fiscal Year 2003-04, the Board addressed a number of the actuarial matters. In recognition of the potential impact of reinstituting required employer contributions, the Retirement Board extended the actuarial review over a three month period and conducted two special meetings in addition to the three regular meetings prior to establishing the employer rate of contributions for 2004-2005 at 4.48% of covered payroll. In addition, the Board reviewed the cost analysis of several proposed charter amendments, including the targeted early retirement proposal.

In March, the Retirement Board carefully reviewed the basic cost of living report and adopted a 2% cost of living adjustment (COLA) for retirees who retired on or before July 1, 2002 and a 1% cost of living adjustment for those who retired after July 1, 2002 through July 1, 2004. This basic COLA was payable on July 1, 2004. At the same meeting the Board reviewed the report on supplemental cost of living adjustment; however it was unable to adopt any further benefits as no excess earnings had been achieved during the 2002-2003 fiscal year.

The Retirement Board received reports regarding outstanding litigation, most notably the determination of the California Supreme Court to deny review of the *Mason vs SFERS* Appeals Court decision affirming the Retirement System's method of benefit calculation.

## HIGHLIGHTS OF RETIREMENT BOARD ACTIVITIES FOR FISCAL YEAR 2003-2004 (CONTINUED)

### ◆ DEFERRED COMPENSATION

The Retirement Board reviewed responses to the Request for Proposal for Plan Administrator (RFP) in 2003 and selected ING Life Insurance and Annuity Company to administer the Deferred Compensation Plan ("Plan") with a five (5) year contract to expire in the year 2009. As a result of the RFP process, the Retirement Board elected to make changes to the core investment fund lineup effective January 30, 2004 which included a rate increase to the ING Fixed Account, the elimination of the Janus funds and ING JP Morgan Fleming International Portfolio.

The Retirement Board reviewed Investment Performance Analysis provided by Mercer Investment Consulting and KPMG Investment Advisors and appointed the Deferred Compensation Review Committee to evaluate the current fund lineup. Subsequent enhancements to the core investment fund lineup are expected in the 2004 – 2005 fiscal year. As a result of the recommendation of the Deferred Compensation Committee, the Retirement Board eliminated the following investment options from the core investment fund:

- Janus Twenty Fund
- Janus Aspen Series Worldwide Growth Portfolio - Institutional Shares
- Janus Aspen Series Balanced Portfolio – Institutional Series
- Janus Aspen Series Flexible Income Portfolio – Institutional Shares
- ING JP Morgan Fleming International Portfolio – Initial Class

Other significant enhancements to the Plan by the Retirement Board include implementation of the Investment Policy Statement and Unforeseeable Emergency Withdrawal Policy.

The Retirement Board continues to monitor the Deferred Compensation Plan to ensure participants are provided with on-going enhancements, well performing investment funds and a competitive fee structure.

### ◆ INVESTMENT DIVISION HIGHLIGHTS

Throughout the fiscal year the Retirement Board ("the Board") reviewed the performance of the Trust Fund ("the Fund") and the adherence to guidelines by individual managers. The Investment Division, working with the Fund's General Consultant, Angeles Investment Advisors, completed four manager searches and also initiated searches for two new mandates: Currency Overlay and an Emerging Manager Program.

The Board continued the process of reviewing and revising manager investment guidelines. During the year, the Board approved investment guidelines for six new managers and revisions to guidelines for six existing managers. The Board also approved minor revisions to the structure of the International Equity sub-asset class allocation.

Also during the fiscal year, the Board received educational presentations on Real Estate Investment Trusts (REITs) and use of currency overlay programs in institutional portfolios.

## HIGHLIGHTS OF RETIREMENT BOARD ACTIVITIES FOR FISCAL YEAR 2003-2004 (CONTINUED)

Following is a summary of the investment activities accomplished by the Retirement Board and Staff during the fiscal year 2003-2004, organized by major capital market segments.

### ◆ Equity

Modifications to the roster of Equity managers occurred throughout the fiscal year with the issuance of four Requests for Proposal. The Board approved a Staff recommendation to retain two international small cap managers to replace two managers who either underwent significant personnel changes or suffered performance difficulties. For similar reasons, the Board also approved replacement of one large cap international equity manager. In the US portfolio, a small/mid cap growth manager was selected to replace a small cap growth manager who had both lost senior personnel and experienced weak performance. In addition, a US large cap value manager was selected to actively manage a portfolio previously managed on an indexed basis.

An evaluation was conducted for employing a fund of funds of emerging managers. This evaluation resulted in the Board's adoption of a "Policy on Emerging Managers in Public Markets". Upon the adoption of the Policy, the Board authorized a Request for Proposal to retain a "Fund of Funds Manager" to assist in creation and oversight of an emerging manager program. After a thorough review, the Board determined that additional time was required for maturation of the fund of funds manager candidates before such a program could be implemented.

During the fiscal year, the Board was also presented with an educational session related to the use of currency management in International Equity portfolios, which led to the Board's authorization of a Request for Proposal to retain manager(s) for currency management. This search was still in process at the end of the fiscal year.

Finally, in compliance with the Board approved policy for Asset Allocation rebalancing, funds were shifted between managers as assets were reallocated within and between the sub-asset classes comprising the Equity portion of the Fund.

### ◆ Fixed Income

There were no Fixed Income manager changes required in fiscal year 2003-2004.

In compliance with the Board approved policy for Asset Allocation rebalancing, funds were shifted between managers as assets were reallocated within and between the sub-asset classes comprising the Fixed Income portion of the Fund.

### ◆ Alternative Investments

The Board approved an annual investment plan for Alternative Investments that recommended an investment pace of approximately \$150 million for the calendar year 2004. The new commitments were made to a diversified set of private equity limited partnerships sponsored by the existing Alternative Investment managers, and/or by newly selected investment firms that appear to have strategies which will enhance the Portfolio. As of June 30, 2004, the market value of Alternative Investments was \$1.3 billion, or 11% of the total Fund assets.

## ◆ Real Estate

Throughout the fiscal year, the Board continued to monitor the Real Estate's underweight to the target exposure. Looking ahead, Real Estate will focus closely on asset quality and sustainable cash flow before making new acquisitions. SFERS continues to find Real Estate an attractive asset class, and on a longer-term, risk/reward basis, Real Estate should continue to contribute to SFERS' diversified investment program.

As of June 30, 2004, the market value of Real Estate \$958 million, or 8% of the total Fund assets.



## **SFERS ADMINISTRATION**

### ***Administering mandated benefit programs and providing promised benefits***

#### **ADMINISTRATION DIVISION**

The Administration Division manages the daily activities of the SFERS and oversees all other Divisions in the Department – Investments, Operations, Member Services, Human Resources and Fiscal Divisions. The Administration Division provides administrative support to the Retirement Board in preparation of agendas, minutes and public notice requirements for the Board's meetings and committee meetings. Administrative staff interfaces with Board members in travel requests, orientation of new Board members, and facilitates on-going educational opportunities for Board members.

Public Records Requests are managed and administered by the Administration Division in accordance with the City's Record and Retention Policy. The Disability applications and subsequent hearings before an Administrative Law Judge are processed by Administrative Office in consultation with the Workers Compensation Division of the Department of Human Resources.

#### **ACTUARIAL SERVICES**

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System. The Retirement Board has appointed Executive Director Clare Murphy as Acting Actuary until the position of in-house actuary is filled.

#### **SAN FRANCISCO 457 DEFERRED COMPENSATION PLAN**

The Deferred Compensation Plan, adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The SFERS Deferred Compensation Division oversees and monitors the City's Deferred Compensation Plan through a third-party plan administrator, currently ING Life Insurance and Annuity Company. The Deferred Compensation division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, request for proposals, and review of investment fund assessments.

During the past year the Deferred Compensation Plan grew in assets and in number of participants. The Plan offers a diverse selection of 20 core investment funds including a fixed account and access to a self-directed brokerage option.

The following table provides detailed information related to the City's Deferred Compensation Plan Fiscal Year 2003-2004.

**CITY AND COUNTY OF SAN FRANCISCO 457 PLAN  
DEFERRED COMPENSATION: CHANGES IN PLAN VALUES**

**ING Financial Advisors, LLC**

**06/30/03 – 06/30/04**

| <b>FUND NAME</b>                                              | <b>ASSETS AS OF<br/>06/30/2003</b> | <b>ASSETS AS OF<br/>06/30/2004</b> |
|---------------------------------------------------------------|------------------------------------|------------------------------------|
| ING FIXED ACCOUNT – 457/401                                   | \$362,118,045                      | \$396,390,597                      |
| JANUS TWENTY FUND                                             | \$84,492,784                       | 0.00*                              |
| ING T. ROWE PRICE GROWTH EQUITY PORTFOLIO – INITIAL CLASS     | \$71,348,634                       | \$163,632,766                      |
| ING VP BALANCED PORTFOLIO INC. – CLASS I                      | \$64,965,016                       | \$108,846,613                      |
| AIM V.I. CAPITAL APPRECIATION FUND – SERIES I SHARES          | \$54,589,143                       | \$64,534,932                       |
| JANUS ASPEN SERIES WORLDWIDE GROWTH PORTFOLIO – INST. SHARES  | \$35,970,708                       | 0.00*                              |
| ING VP INDEX PLUS LARGE CAP PORTFOLIO – CLASS I               | \$35,345,018                       | \$41,506,397                       |
| JANUS ASPEN SERIES BALANCED PORTFOLIO – INST. SHARES          | \$35,286,424                       | 0.00*                              |
| ING VP BOND PORTFOLIO – CLASS I                               | \$29,042,371                       | \$31,338,631                       |
| ARIEL FUND                                                    | \$23,952,694                       | \$45,777,967                       |
| ING VP MONEY MARKET PORTFOLIO – CLASS I                       | \$17,066,411                       | \$13,085,025                       |
| JANUS ASPEN SERIES FLEXIBLE INCOME PORTFOLIO – INST. SHARES   | \$13,373,460                       | 0.00*                              |
| ING JP MORGAN FLEMING INTERNATIONAL PORTFOLIO – INITIAL CLASS | \$12,147,839                       | 0.00*                              |
| ING VP VALUE OPPORTUNITY PORTFOLIO – CLASS I                  | \$11,948,494                       | \$16,275,089                       |
| VANGUARD® 500 INDEX FUND – INVESTOR SHARES                    | \$10,781,988                       | \$30,371,403                       |
| ING VP GROWTH PORTFOLIO – CLASS I                             | \$10,290,803                       | \$12,813,647                       |
| ING VP SMALL COMPANY PORTFOLIO – CLASS I                      | \$5,831,393                        | \$16,388,470                       |
| ING ULTIMATE ACCOUNT                                          | \$4,982,781                        | \$5,931,795                        |
| CITIZENS EMERGING GROWTH FUND® - ADMINISTRATIVE SHARES        | \$3,534,546                        | \$6,122,114                        |
| CCSF MID TERM PORTFOLIO                                       | \$2,382,717                        | \$12,017,494                       |
| CCSF LONG TERM PORTFOLIO                                      | \$1,373,683                        | \$8,490,028                        |
| ING VP INDEX PLUS MIDCAP PORTFOLIO – CLASS I                  | \$1,248,419                        | \$11,143,154                       |
| ING JP MORGAN MIDCAP VALUE PORTFOLIO – INITIAL CLASS          | \$1,186,601                        | \$5,902,550                        |
| CCSF NEAR TERM PORTFOLIO                                      | \$1,031,009                        | \$3,226,595                        |
| ING VP INTERNATIONAL VALUE PORTFOLIO – CLASS I                | \$834,000                          | \$61,868,012                       |
| <b>TOTAL INVESTMENT FUNDS AT ING FINANCIAL ADVISORS, LLC</b>  | <b>\$895,124,981</b>               | <b>\$1,055,663,279</b>             |
| <b>TOTAL ANNUITY ASSETS AT ING FINANCIAL ADVISORS, LLC</b>    | <b>1,826,273</b>                   | <b>\$1,760,703</b>                 |
| <b>TOTAL ANNUITY ASSETS AT HARTFORD</b>                       | <b>30,248,164</b>                  | <b>\$28,553,634</b>                |
|                                                               |                                    |                                    |
| <b>TOTAL PLAN ASSETS</b>                                      | <b>\$927,199,418</b>               | <b>\$1,085,977,616</b>             |

\* Investment Option Closed January 30, 2004

|                                            |                   |
|--------------------------------------------|-------------------|
| Number of Active Plan Participants:        | 21,535            |
| Number of Retirees Not Receiving Benefits  | 622               |
| Retirees Receiving Benefits from Hartford: | 577               |
| Retirees Receiving Benefits from ING:      | 1,032             |
| <br>Total Retiree Assets:                  | <br>\$195,475,970 |

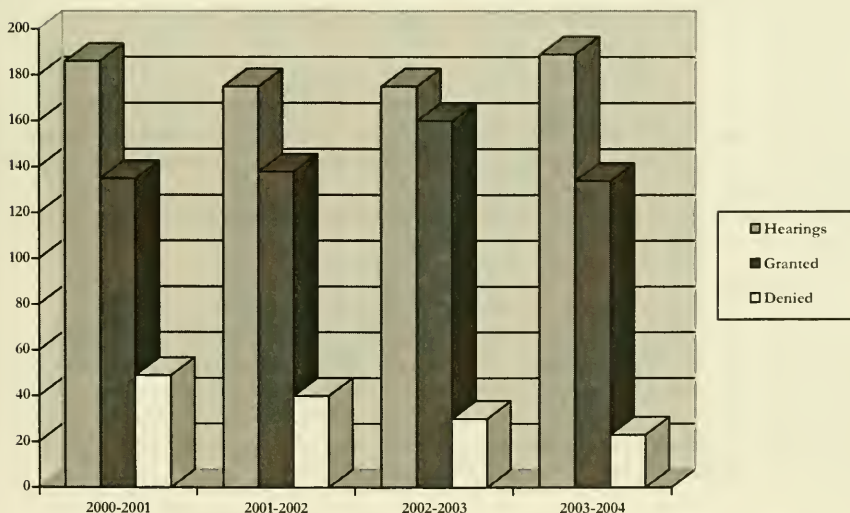


## HEARING OFFICER REPORT FISCAL YEAR ENDED JUNE 30, 2004

| CASES                             | TOTAL<br>NO. OF<br>HEARINGS | TOTAL<br>NO.<br>GRANTED | TOTAL<br>NO.<br>DENIED |
|-----------------------------------|-----------------------------|-------------------------|------------------------|
| INDUSTRIAL DISABILITY RETIREMENTS | 77                          | 45                      | 5                      |
| ORDINARY DISABILITY RETIREMENTS   | 97                          | 78                      | 3                      |
| DEATH BENEFITS                    | 6                           | 4                       | 3                      |
| PETITIONS FOR REHEARING           | 0                           | 0                       | 10                     |
| PERS                              | 7                           | 5                       | 2                      |
| REINSTATEMENTS                    | 2                           | 2                       | 0                      |
| <b>TOTAL</b>                      | <b>189</b>                  | <b>134</b>              | <b>23</b>              |

\*The number of hearings does not equal number of decisions because many decisions are held over from the previous year due to the time required in the preparation of cases for disability hearings and are not reported.

## HEARING OFFICER REPORT FOUR-YEAR COMPARISON



## INVESTMENT DIVISION

### *Dedicated to securing, protecting and prudently investing the pension trust assets*

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the 70 years since its inception. The Retirement System's goal, however, has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional Staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. The Investment Division professional Staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2004, approximately 22% of SFERS Trust Fund assets were managed internally, including \$714.8 million in domestic bonds and \$1.9 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including Domestic and Global Fixed Income, Domestic and International Equities, Real Estate and Alternative Investments.

### INVESTMENT PERFORMANCE HIGHLIGHTS FOR FISCAL YEAR ENDED JUNE 30, 2004

For the fiscal year ended June 30, 2004, the Investment Portfolio of the Retirement System was a beneficiary of a rebound in economic and capital market growth, ending the fiscal year with a return of 16.34%. Total Equity (Domestic and International combined) resumed its double-digit growth to 25.46% and Alternative Investments 22.68%. Fixed Income returned 3.26% and Real Estate returned 12.60% as reported by The Townsend Group, the SFERS Real Estate Consultant.

#### ◆ Equity

The combined return of Domestic Equity and International Equity of 25.46% marked the first fiscal year of positive result since June 2000. US Equity return of 21.46% exceeded the Russell 3000 benchmark return of 20.46% by 1.0%. The very strong performance of small cap stocks contributed significantly with returns nearly twice those of other holdings. International Equity return of 34.08% exceeded the benchmark of 32.03% by 2.05%, contributed to mainly by the strong performance of the emerging markets sector.

#### ◆ Fixed Income

A strengthening economy and less accommodative monetary policy combined to increase short-term interest rates during the latter part of the fiscal year. As a result, Fixed Income had a low but relatively good performance within the Fund, turning in a 3.26% rate of return for the fiscal year ending June 30, versus the benchmark return of 0.85%. Domestic Fixed Income return of 3.07% for the fiscal year was relatively good. Exposure to Global Fixed Income, which provided a fiscal year return of 3.77%, enhanced the return of Total Fixed Income further.

#### ◆ Alternative Investments

The Alternative Investment Portfolio provided a return of 22.68% for the fiscal year ended June 30, 2004. Over a ten-year investment period, the Portfolio provided a 17.23% annualized return, which

## INVESTMENT DIVISION (Continued)

successfully achieved its benchmark return. The benchmark for Alternative Investments is the S&P 500 plus 500 basis points.

### ◆ Real Estate

As part of its continuous review process, the Board approved a new Real Estate benchmark, which is 200 basis points above the National Property Index (NPI). Real Estate assets were sold at higher than historical valuations and the sales proceeds along with debt were used to acquire cash generating Core assets, both of which contributed to the achievement of above benchmark performance. Real Estate return of 12.6% outperformed the NPI return of 10.8% by 1.8% for the fiscal year ended 2004. For the three-year and five-year periods, Real Estate returned 10.1% and 10.8%, exceeding the NPI returns of 8.0% and 9.4% by 2.1% and 1.4% respectively.

# INVESTMENT PORTFOLIO PERFORMANCE

## ANNUALIZED RETURNS FOR THE PERIODS ENDING 6/30/2004

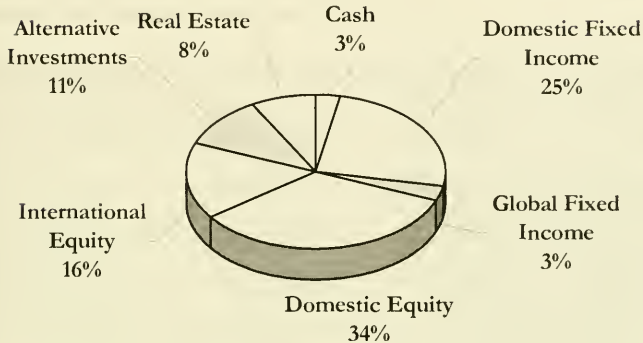
|                                                                                                | One Year                       | 3 Years                      | 5 Years                      |
|------------------------------------------------------------------------------------------------|--------------------------------|------------------------------|------------------------------|
| DOMESTIC EQUITY<br>(benchmark: Russell 3000)                                                   | 21.46%<br>20.46%               | 1.12%<br>0.15%               | -0.15%<br>-1.07%             |
| INTERNATIONAL EQUITY<br>(benchmark: MSCI ACWI Free ex US)                                      | 34.08%<br>32.03%               | 5.01%<br>4.87%               | 2.86%<br>0.70%               |
| DOMESTIC FIXED INCOME<br>(benchmark: Lehman Universal/Aggregate)                               | 3.07%<br>1.01%                 | 8.82%<br>6.66%               | 8.37%<br>7.05%               |
| GLOBAL FIXED INCOME<br>(benchmark: Lehman Global Aggregate/CG WGBI)                            | 3.77%<br>0.21%                 | 9.46%<br>5.17%               | 8.64%<br>4.69%               |
| REAL ESTATE<br>(benchmark: National Property Index+2%)                                         | 12.60%<br>13.10%               | 10.10%<br>10.10%             | 10.80%<br>11.60%             |
| ALTERNATIVE ASSETS<br>(benchmark: S&P500 + 6% through 12/31/02 plus<br>S&P500 + 5% thereafter) | 22.68%<br>25.11%               | -1.54%<br>5.31%              | 10.16%<br>3.8%               |
| <b>TOTAL FUND</b><br>(weighted policy benchmark)                                               | <b>16.34%</b><br><b>15.15%</b> | <b>4.54%</b><br><b>3.97%</b> | <b>4.73%</b><br><b>2.92%</b> |

*Source: Real Estate returns as calculated by the Townsend Group. All other returns as calculated by The Northern Trust Company.*

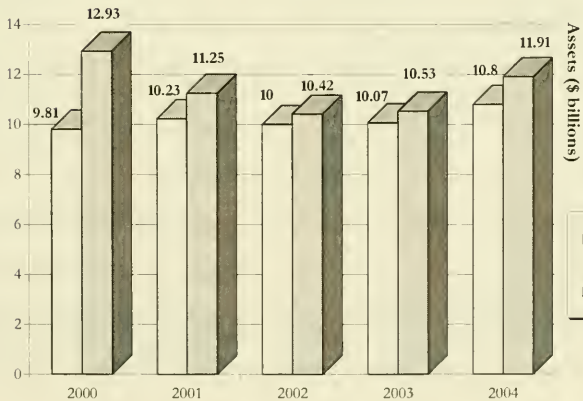
The following pages contain charts illustrating:

- ◆ Asset Allocation as of June 30, 2004
- ◆ SFERS Trust Fund Assets
- ◆ Investment Portfolio Performance
- ◆ Investment Earnings and Assets
- ◆ Portfolio Investment as of June 30, 2004

## ASSET ALLOCATION AS OF JUNE 30, 2004 MARKET VALUE



## PENSION FUND NET ASSETS



**INVESTMENT EARNINGS AND ASSETS**  
**THREE YEAR HISTORY**  
**(NOT INCLUDING ASSETS RECEIVABLE BUT NOT YET INVESTED)**

FISCAL YEAR ENDED JUNE 30:

| 2004 | 2003 | 2002 |
|------|------|------|
|------|------|------|

**INVESTMENT EARNINGS**

|                                                                                          |                         |                       |                         |
|------------------------------------------------------------------------------------------|-------------------------|-----------------------|-------------------------|
| EQUITY DIVIDEND INCOME                                                                   | \$ 95,691,417           | \$ 73,414,536         | \$ 63,875,140           |
| REAL ESTATE INCOME                                                                       | 58,276,612              | 45,588,220            | 48,951,277              |
| ALTERNATIVE INVESTMENT INCOME                                                            | 40,142,042              | 2,082,909             | (6,686,655)             |
| REALIZED GAINS/(LOSS)                                                                    | 649,859,830             | (57,840,866)          | (324,762,200)           |
| UNREALIZED GAINS/(LOSS)                                                                  | 721,511,931             | 181,844,163           | (539,134,907)           |
| OTHER INCOME: INTEREST, SECURITIES<br>LENDING, DOLLAR ROLL AND RECAPTURED<br>COMMISSIONS | 170,107,106             | 182,580,112           | 224,561,374             |
| <b>TOTAL INVESTMENT EARNINGS</b>                                                         | <b>\$ 1,735,588,938</b> | <b>\$ 427,669,074</b> | <b>(\$ 533,195,971)</b> |

FISCAL YEAR ENDED JUNE 30:

| 2004 | 2003 | 2002 |
|------|------|------|
|------|------|------|

**PORTFOLIO ASSETS - FAIR VALUE**

|                                      |                          |                          |                          |
|--------------------------------------|--------------------------|--------------------------|--------------------------|
| FIXED INCOME                         | \$ 3,381,353,573         | \$ 3,015,932,047         | \$ 3,374,601,919         |
| EQUITIES                             | 5,947,900,326            | 5,002,450,859            | 4,796,110,459            |
| REAL ESTATE                          | 958,368,355              | 953,533,290              | 820,844,105              |
| ALTERNATIVE INVESTMENTS              | 1,311,960,487            | 1,249,167,293            | 1,218,142,257            |
| MONEY MARKET ASSETS                  | 307,606,100              | 305,012,031              | 203,444,843              |
| <b>TOTAL FAIR VALUE OF PORTFOLIO</b> | <b>\$ 11,907,188,841</b> | <b>\$ 10,526,095,520</b> | <b>\$ 10,413,143,583</b> |



# SAN FRANCISCO CITY AND COUNTY EMPLOYEE RETIREMENT SYSTEM

## SUMMARY OF ASSETS AS OF JUNE 30, 2004

| CATEGORY                            | COST                 | % OF<br>TOTAL | MARKET               | % OF<br>TOTAL |
|-------------------------------------|----------------------|---------------|----------------------|---------------|
| <b>CASH &amp; CASH EQUIVALENTS</b>  | \$ 271,935,419.95    | 2.50%         | \$ 307,606,100.34    | 2.58%         |
| <b>EQUITIES</b>                     |                      |               |                      |               |
| BASIC INDUSTRIES                    | 160,584,806.21       | 1.48%         | 196,857,457.86       | 1.65%         |
| CAPITAL GOODS INDUSTRIES            | 181,739,767.69       | 1.67%         | 265,349,616.03       | 2.23%         |
| CONSUMER DURABLES                   | 54,147,288.64        | 0.50%         | 68,454,560.52        | 0.57%         |
| CONSUMER NON-DURABLES &<br>SERVICES | 898,344,002.12       | 8.27%         | 1,190,223,174.47     | 10.00%        |
| ENERGY                              | 157,095,736.20       | 1.45%         | 221,941,018.07       | 1.86%         |
| FINANCIAL SERVICES                  | 716,578,562.88       | 6.60%         | 914,469,579.85       | 7.68%         |
| MISCELLANEOUS                       | 136,919,051.24       | 1.26%         | 330,341,163.78       | 2.77%         |
| TECHNOLOGY                          | 509,934,345.31       | 4.70%         | 576,959,497.68       | 4.85%         |
| UTILITIES                           | 463,811,212.11       | 4.27%         | 484,116,009.26       | 4.07%         |
| FOREIGN STOCK                       | 1,436,318,519.39     | 13.23%        | 1,699,188,248.12     | 14.27%        |
| <b>EQUITIES SUBTOTAL</b>            | 4,715,473,291.79     | 43.42%        | 5,947,900,325.64     | 49.95%        |
| <b>FIXED INCOME</b>                 |                      |               |                      |               |
| BASIC INDUSTRIES                    | 321,402,834.56       | 2.96%         | 318,812,792.96       | 2.68%         |
| CAPITAL GOODS INDUSTRIES            | 28,434,290.84        | 0.26%         | 30,229,746.80        | 0.25%         |
| CONSUMER DURABLES                   | 3,374,655.00         | 0.03%         | 3,456,262.49         | 0.03%         |
| CONSUMER NON-DURABLES &<br>SERVICES | 115,868,878.13       | 1.07%         | 117,437,709.36       | 0.99%         |
| ENERGY                              | 23,508,740.78        | 0.22%         | 24,119,040.87        | 0.20%         |
| FINANCIAL SERVICES                  | 771,898,749.24       | 7.11%         | 797,189,847.87       | 6.70%         |
| MISCELLANEOUS                       | 195,433,531.21       | 1.80%         | 217,187,947.98       | 1.82%         |
| MORTGAGES                           | 98,687,426.33        | 0.91%         | 96,936,966.60        | 0.81%         |
| TECHNOLOGY                          | 19,576,954.01        | 0.18%         | 17,631,742.49        | 0.15%         |
| US GOVERNMENT                       | 1,294,939,903.62     | 11.92%        | 1,263,546,840.08     | 10.61%        |
| UTILITIES                           | 43,113,037.23        | 0.40%         | 44,187,529.66        | 0.37%         |
| FOREIGN GOVERNMENT AND<br>CORPORATE | 417,789,389.54       | 3.85%         | 450,617,146.14       | 3.78%         |
| <b>FIXED INCOME SUBTOTAL</b>        | 3,334,028,390.49     | 30.70%        | 3,381,353,573.30     | 28.40%        |
| <b>OTHER INVESTMENTS</b>            |                      |               |                      |               |
| REAL ESTATE                         | 983,992,461.00       | 9.06%         | 958,368,355.00       | 8.05%         |
| VENTURE CAPITAL & PARTNERSHIPS      | 1,555,077,666.91     | 14.32%        | 1,311,960,486.72     | 11.02%        |
| <b>OTHER INVESTMENTS SUBTOTAL</b>   | 2,539,070,127.91     | 23.38%        | 2,270,328,841.72     | 20.90%        |
| <b>GRAND TOTAL</b>                  | \$ 10,860,507,230.14 | 100.00%       | \$ 11,907,188,841.00 | 100.00%       |

## RETIREMENT SERVICES DIVISION

### *Administering mandated benefit programs and providing promised benefits*

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement counseling.

#### **SFERS PLAN MEMBERSHIP**

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of multiple tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current Firefighter Plan and Police Plan benefits are established by Charter amendment passed in November 2002 and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000.

Miscellaneous Plan members are members of the Social Security System since September 1959 (City Charter § 8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement.

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco. Plan membership is in effect as long as member contributions remain on deposit with SFERS.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems (e.g., deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; school teachers are members of the State Teachers Retirement System).

On September 1, 1995, Retirement System membership rules were changed: employees who earn 1040 hours of compensation or more during any 12-month period became eligible for retirement membership on the first day of the pay period following the payperiod in which the member earns 1040 hours of compensation.

On January 1, 2003, Old Plan Firefighter and Old Plan Police members were eligible to become members of SFERS under City Charter §§8.597 and 8.595 respectively, while New Plan Firefighter and New Plan Police members automatically became members of SFERS under City Charter §§8.598 and 8.596 under provisions of Proposition H passed by the voters in November 2002.



SFERS Plan Membership Charter References:

| CHARTER SECTION    | EMPLOYEE GROUP                                                                                                                           |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| 8.509              | Miscellaneous employees who became members before November 2, 1976                                                                       |
| 8.587              | Miscellaneous employee who became members on or after November 2, 1976                                                                   |
| 8.559              | Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003            |
| 8.559-14 and 8.586 | Police officers who elected 1981 Proposition F (Buyout) benefits                                                                         |
| 8.595              | Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003                  |
| 8.597              | Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003   |
| 8.585              | Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003               |
| 8.585-14 and 8.588 | Firefighters who elected 1981 Proposition F (Buyout) benefits                                                                            |
| 8.596              | Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003                     |
| 8.598              | Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003 |

## SFERS MEMBERSHIP

SFERS active membership falls within three categories:

- **Active Members** who are currently on City and County Payroll
- **Vested Members** who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
- **Reciprocal Members** who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2004, there were 29,470 members of the Miscellaneous Plans, 2,231 members of the Police Plans and 1,681 members of the Firefighter Plans.

### SFERS ACTIVE MEMEBERSHIP AS OF JUNE 30, 2004

| PLAN MEMBERSHIP GROUP                                                 | NUMBER OF ACTIVE MEMBERS |            |            |               |
|-----------------------------------------------------------------------|--------------------------|------------|------------|---------------|
|                                                                       | ACTIVE                   | VESTED     | RECIPROCAL | TOTAL         |
| <b>OLD MISCELLANEOUS PLAN</b><br>MEMBERS BEFORE NOVEMBER 2, 1976      | 1,638                    | 23         | 17         | 1,671         |
| <b>NEW MISCELLANEOUS PLAN</b><br>MEMBERS ON OR AFTER NOVEMBER 2, 1976 | 26,175                   | 929        | 695        | 27,799        |
| <b>OLD POLICE PLAN</b> MEMBERS BEFORE NOVEMBER 2, 1976                | 120                      | 0          | 0          | 120           |
| <b>NEW POLICE PLAN</b> MEMBERS ON OR AFTER NOVEMBER 2, 1976           | 2,063                    | 31         | 17         | 2,111         |
| <b>OLD FIREFIGHTER PLAN</b> MEMBERS BEFORE NOVEMBER 2, 1976           | 123                      | 0          | 0          | 123           |
| <b>NEW FIREFIGHTER PLAN</b> MEMBERS ON OR AFTER NOVEMBER 2, 1976      | 1,540                    | 12         | 6          | 1,558         |
| <b>TOTALS:</b>                                                        | <b>31,659</b>            | <b>995</b> | <b>728</b> | <b>33,382</b> |

Miscellaneous Plan members comprise approximately 88.2% of the total SFERS Plan membership, with approximately 5.7% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.7% and 5.0% of the total membership, respectively.

**EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES  
AS A PERCENTAGE OF COVERED PAYROLL**

| COVERED PLAN YEAR                | POLICE | FIREFIGHTER | MISCELLANEOUS |
|----------------------------------|--------|-------------|---------------|
| 1995-1996 (2 <sup>ND</sup> HALF) | 12.69% | 10.58%      | 4.29%         |
| 1996-1997 (1 <sup>ST</sup> HALF) | 0%     | 0%          | 1.83%         |
| 1996-1997 (2 <sup>ND</sup> HALF) | 0%     | 0%          | 0%            |
| 1998-2004                        | 0%     | 0%          | 0%            |
| 2004-2005                        | 4.48%  | 4.48%       | 4.48%         |

Note: Rates of contribution are composite rates for Old and New groups.

**EMPLOYEE CONTRIBUTION RATES  
AS A PERCENTAGE OF COVERED PAYROLL**

| PLAN MEMBERSHIP GROUP | RATE OF CONTRIBUTION |
|-----------------------|----------------------|
| MISCELLANEOUS (OLD)*  | 8.00%                |
| MISCELLANEOUS (NEW)   | 7.50%                |
| POLICE (OLD)          | 8.00%                |
| POLICE (NEW)          | 7.50%                |
| FIREFIGHTER (OLD)     | 7.00%                |
| FIREFIGHTER (NEW)     | 7.50%                |

\*Contributions for Old Plan Miscellaneous Employees (City Charter § 8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.

## SFERS RETIREMENT SERVICES

The following table summarizes the major activities of the SFERS Retirement Services Division during Plan Years 2002-2003 and 2003-2004:

| ACTIVITY                                               | 2002-2003 | 2003-2004 |
|--------------------------------------------------------|-----------|-----------|
| RETIREMENT APPOINTMENTS                                | 1669      | 1475      |
| RETIREMENT APPLICATIONS PROCESSED                      | 950       | 1123      |
| BUYBACK APPOINTMENTS                                   | 1597      | 2613      |
| PERSONNEL TRANSACTIONS:                                | 1703      | 1559      |
| NEW MEMBERS (NEW HIRES)                                | 844       | 758       |
| NEW MEMBERS (1040 HOURS MEMBERSHIP)                    | 591       | 598       |
| REHIRES                                                | 127       | 114       |
| FIRE RECRUITS                                          | 48        | 0         |
| POLICE RECRUITS                                        | 84        | 89        |
| SHERIFF RECRUITS                                       | 9         | 0         |
| VISITORS                                               | 11,855    | 11,782    |
| INCOMING CORRESPONDENCE                                | 12,303    | 13,698    |
| HOME VISITS                                            | 23        | 24        |
| GROUP PRESENTATIONS                                    | 7         | 18        |
| BENEFICIARY CHANGES                                    | 1335      | 1351      |
| REFUND PACKETS                                         | 1114      | 1283      |
| VERIFICATION OF PENSION OR BENEFIT DATA                | 697       | 1224      |
| ELECTRONIC FUND TRANSFER (NEW AND CHANGES)             | 2461      | 2321      |
| OTHER ACTIVITIES (ADDRESS CHANGES, NAME CHANGES, ETC.) | 2044      | 2193      |
| PRE-RETIREMENT SEMINARS                                | 6         | 4         |
| REGISTERED ATTENDEES AT PRE-RETIREMENT SEMINARS        | 763       | 748       |
| MID-CAREER RETIREMENT PLANNING SEMINARS                | 1         | 2         |
| REGISTERED ATTENDEES AT MID-CAREER SEMINARS            | 156       | 198       |
| NEW MEMBER RETIREMENT PLANNING SEMINARS                | 1         | 1         |
| REGISTERED ATTENDEES AT NEW MEMBER SEMINARS            | 83        | 98        |

Retirement appointments decreased 11.6% and retirement applications processed increased 18.2% in Plan Year 2003-2004 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted four pre-retirement seminars during Plan Year 2003-2004 that provided individualized benefit counseling for 763 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career retirement planning seminar and one new member retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in a retirement seminars sponsored by the Police Officers Association, the Unified School District and the Community College District.

**SFERS Plan Member Communications:** During Plan Year 2003-2004, SFERS Retirement Services Division produced and distributed over 33,700 Annual Member Statements to active SFERS members.



## SFERS RETIREMENT STATISTICS FOR PLAN YEAR ENDED JUNE 30, 2004

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2003-2004, as well as benefits payment summaries and comparisons:

### NEW RETIREMENTS EFFECTIVE DURING PLAN YEAR ENDED JUNE 30, 2004

| MEMBER GROUP   | SERVICE      | VESTING    | INDUSTRIAL DISABILITY | ORDINARY DISABILITY | TOTAL      |
|----------------|--------------|------------|-----------------------|---------------------|------------|
| MISCELLANEOUS  | 586          | 195        | N/A                   | 40                  | 821        |
| FIREFIGHTER    | 78           | 0          | 12                    | 0                   | 90         |
| POLICE         | 67           | 1          | 5                     | 0                   | 73         |
| <b>TOTALS:</b> | <b>* 731</b> | <b>196</b> | <b>17</b>             | <b>40</b>           | <b>984</b> |

\*Total service retirements in Plan Year 2003-2004 includes applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

The total number of new retirements effective during Plan Year 2003-2004 was 1.9% higher than retirements in Plan Year 2002-2003. Service retirements represent 74.3% of the total of new retirements processed.

Miscellaneous retirements represented 83.4% of the total retirements processed in Plan Year 2003-2004, an increase from 77.6% in Plan Year 2002-2003.

Firefighter retirements represented 9.2% of the total retirements processed in Plan Year 2003-2004, a decrease from 13.3% in Plan Year 2002-2003.

Police retirements represented 7.4% of the total retirements processed in Plan Year 2003-2004, a decrease from 9.1% in Plan Year 2002-2003.

### MISCELLANEOUS PLAN MEMBERS PLAN YEAR ENDED JUNE 30, 2004 SERVICE CREDIT AT RETIREMENT

| YEARS OF SERVICE | SERVICE RETIREMENT | VESTING RETIREMENT | ORDINARY DISABILITY | TOTAL         | PERCENT OF TOTAL |
|------------------|--------------------|--------------------|---------------------|---------------|------------------|
| 0-4              | 11                 | 0                  | 0                   | 11            | 1.3%             |
| 5-9              | 12                 | 117                | 1                   | 130           | 15.8%            |
| 10-14            | 85                 | 31                 | 18                  | 134           | 16.3%            |
| 15-19            | 103                | 41                 | 13                  | 157           | 19.1%            |
| 20-24            | 130                | 4                  | 4                   | 138           | 16.8%            |
| 25-29            | 97                 | 2                  | 2                   | 101           | 12.3%            |
| 30-34            | 91                 | 0                  | 1                   | 92            | 11.2%            |
| 35-39            | 53                 | 0                  | 1                   | 54            | 6.6%             |
| 40 and above     | 4                  | 0                  | 0                   | 4             | 0.5%             |
| <b>TOTAL</b>     | <b>586</b>         | <b>195</b>         | <b>40</b>           | <b>821</b>    | <b>100.0%</b>    |
| <b>PERCENT</b>   | <b>71.4%</b>       | <b>23.7%</b>       | <b>4.9%</b>         | <b>100.0%</b> |                  |

Approximately 69.4% of the total Miscellaneous Plan retirements had less than 25 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2003-2004 was 19.9 years.

Miscellaneous Plan service retirees were credited with an average of 23.2 years of service while those who retired for ordinary disability were credited with an average of 16.6 years of service.

#### AGE AT RETIREMENT

| AGE          | SERVICE    | VESTING    | ORDINARY<br>DISABILITY | TOTAL      | PERCENT<br>OF TOTAL |
|--------------|------------|------------|------------------------|------------|---------------------|
| UNDER 55     | 45         | 108        | 23                     | 176        | 21.4%               |
| 55-59        | 110        | 49         | 17                     | 176        | 21.4%               |
| 60-64        | 256        | 28         | 0                      | 284        | 34.6%               |
| 65 AND OVER  | 175        | 10         | 0                      | 185        | 22.6%               |
| <b>TOTAL</b> | <b>586</b> | <b>195</b> | <b>40</b>              | <b>821</b> | <b>100.0%</b>       |

The average age of all Miscellaneous Plan members who retired in Plan Year 2003-2004 was 59.9 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 50.9 years.

# POLICE AND FIREFIGHTER PLAN MEMBERS

## PLAN YEAR ENDED JUNE 30, 2004

### SERVICE CREDIT AT RETIREMENT FOR PLAN YEAR ENDED JUNE 30, 2004

| YEARS OF SERVICE | SERVICE RETIREMENTS | VESTING RETIREMENTS | INDUSTRIAL DISABILITY* | TOTAL       | PERCENT OF TOTAL |
|------------------|---------------------|---------------------|------------------------|-------------|------------------|
| 0-4              | 0                   | 0                   | 0                      | 0           | 0.0%             |
| 5-9              | 7                   | 0                   | 4                      | 11          | 6.8%             |
| 10-14            | 0                   | 0                   | 2                      | 2           | 1.2%             |
| 15-19            | 1                   | 0                   | 2                      | 3           | 1.8%             |
| 20-24            | 8                   | 1                   | 0                      | 9           | 5.5%             |
| 25-29            | 46                  | 0                   | 2                      | 48          | 29.4%            |
| 30-34            | 73                  | 0                   | 5                      | 78          | 47.9%            |
| 35 AND OVER      | 10                  | 0                   | 2                      | 12          | 7.4%             |
| <b>TOTAL</b>     | <b>145</b>          | <b>1</b>            | <b>17</b>              | <b>163</b>  | <b>100%</b>      |
| <b>PERCENT</b>   | <b>89.0%</b>        | <b>0.6%</b>         | <b>10.4%</b>           | <b>100%</b> |                  |

\* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2003-2004

Approximately 15.3% of the total Police and Firefighter Plan retirements had less than 25 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2003-2004 was 28.5 years.

Police and Firefighter Plan service retirees were credited with an average of 29.4 years of service while those who retired for industrial disability were credited with an average of 21.4 years of service.

### AGE AT RETIREMENT FOR PLAN YEAR ENDED JUNE 30, 2004

| AGE          | SERVICE    | VESTING  | INDUSTRIAL DISABILITY | TOTAL      | PERCENT OF TOTAL |
|--------------|------------|----------|-----------------------|------------|------------------|
| UNDER 55     | 49         | 1        | 9                     | 59         | 36.2%            |
| 55-59        | 74         | 0        | 5                     | 79         | 48.5%            |
| 60-64        | 20         | 0        | 3                     | 23         | 14.1%            |
| 65 AND OVER  | 2          | 0        | 0                     | 2          | 1.2%             |
| <b>TOTAL</b> | <b>145</b> | <b>1</b> | <b>17</b>             | <b>163</b> | <b>100.0%</b>    |

The average age of all Police and Firefighter Plan members who retired in Plan Year 2003-2004 was 55.8 years.

# TOTAL RETIREMENT ALLOWANCES AS OF JUNE 30, 2004

## RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

| MEMBER CATEGORY                                         | SERVICE RETIREMENTS | DISABILITY RETIREMENTS* | DEATH IN LINE OF DUTY | TOTAL         |
|---------------------------------------------------------|---------------------|-------------------------|-----------------------|---------------|
| <b>NUMBER OF RETIREMENT ALLOWANCES AS OF 6/30/2004:</b> |                     |                         |                       |               |
| <b>MISCELLANEOUS</b>                                    | <b>13,057</b>       | <b>1,851</b>            | <b>N/A</b>            | <b>14,908</b> |
| MEMBER                                                  | 10,766              | 1,311                   | N/A                   | 12,077        |
| CONTINUATION                                            | 2,291               | 540                     | N/A                   | 2,831         |
| <b>FIREFIGHTER</b>                                      | <b>878</b>          | <b>902</b>              | <b>43</b>             | <b>1,823</b>  |
| MEMBER                                                  | 621                 | 649                     | -                     | 1,270         |
| CONTINUATION                                            | 257                 | 253                     | 43                    | 553           |
| <b>POLICE</b>                                           | <b>1,222</b>        | <b>766</b>              | <b>55</b>             | <b>2,043</b>  |
| MEMBER                                                  | 914                 | 488                     | -                     | 1,402         |
| CONTINUATION                                            | 308                 | 278                     | 55                    | 641           |
| <b>TOTAL</b>                                            | <b>15,157</b>       | <b>3,519</b>            | <b>98</b>             | <b>18,774</b> |

\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

As of June 30, 2004, the total number of retirement allowances paid to retired members represented 78.6% of the total allowances paid; continuation allowances represented 21.4% of the total allowances paid.

# MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2004

## RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

| MEMBER CATEGORY                                                 | SERVICE RETIREMENTS  | DISABILITY RETIREMENTS* | DEATH IN LINE OF DUTY | TOTAL                |
|-----------------------------------------------------------------|----------------------|-------------------------|-----------------------|----------------------|
| <b>MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2004:</b> |                      |                         |                       |                      |
| <b>MISCELLANEOUS</b>                                            | <b>\$ 23,044,942</b> | <b>\$ 2,444,488</b>     | <b>N/A</b>            | <b>\$ 25,489,430</b> |
| <b>FIREFIGHTER</b>                                              | <b>4,185,738</b>     | <b>3,710,524</b>        | <b>\$ 120,573</b>     | <b>8,016,835</b>     |
| <b>POLICE</b>                                                   | <b>5,088,275</b>     | <b>2,451,325</b>        | <b>168,541</b>        | <b>7,708,141</b>     |
| <b>TOTAL</b>                                                    | <b>\$ 32,318,955</b> | <b>\$ 8,606,337</b>     | <b>\$ 289,114</b>     | <b>\$ 41,214,406</b> |

\*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 61.8% of the total monthly retirement allowances paid during Plan Year 2003-2004.

Monthly retirement allowances paid to service retirees represented 78.4% of the total monthly retirement allowances and monthly disability benefits represented 20.9% of the total monthly retirement allowances paid during Plan Year 2003-2004.



## DEATH BENEFITS PAID – 3 YEAR COMPARISON

| PLAN YEAR                                                | 2003-2004   | 2002-2003   | 2001-2002  |
|----------------------------------------------------------|-------------|-------------|------------|
| <b>NUMBER OF DEATHS:</b>                                 |             |             |            |
| ACTIVE MEMBERS                                           | 55          | 57          | 52         |
| RETIRED MEMBERS                                          | 530         | 513         | 568        |
| CONTINUANTS                                              | 191         | 214         | 183        |
| <b>TOTAL</b>                                             | <b>776</b>  | <b>784</b>  | <b>803</b> |
| <b>NUMBER OF DEATH BENEFITS PAID:</b>                    |             |             |            |
| <b>DUE TO ACTIVE MEMBER DEATHS</b>                       |             |             |            |
| REFUND OF CONTRIBUTIONS                                  | 81          | 72          | 63         |
| INDUSTRIAL DEATH ALLOWANCES                              | 0           | 0           | 0          |
| 6 MONTHS EARNABLE SALARY                                 | 77          | 70          | 57         |
| <b>SUBTOTAL</b>                                          | <b>158</b>  | <b>142</b>  | <b>120</b> |
| <b>DUE TO RETIRED MEMBER DEATHS</b>                      |             |             |            |
| CONTINUATION                                             | 276         | 250         | 249        |
| OPTION 1 (REFUND OF MEMBER<br>ACCUMULATED CONTRIBUTIONS) | 34          | 42          | 30         |
| \$100/YEAR FOR EACH YEAR OF SERVICE<br>(MAXIMUM \$3,000) | 606         | 618         | 519        |
| <b>SUBTOTAL</b>                                          | <b>916</b>  | <b>910</b>  | <b>798</b> |
| <b>TOTAL</b>                                             | <b>1074</b> | <b>1052</b> | <b>918</b> |

The number of death notices received during Plan Year 2003-2004 decreased by 1.0% from Plan Year 2002-2003.

There was an 11.3% increase in the number of benefits paid due to the death of active members in Plan Year 2003-2004 from the previous Plan Year. In Plan Year 2003-2004, the total number of death benefits payments processed due to the deaths of active and retired members increased 2.1% over the previous Plan Year.

# WITHDRAWAL OF CONTRIBUTIONS – 3 YEAR COMPARISON

|                 | MEMBER<br>ACCOUNTS | PERCENT<br>VARIANCE<br>PRIOR YEAR | AMOUNT<br>WITHDRAWN | PERCENT<br>VARIANCE<br>PRIOR YEAR |
|-----------------|--------------------|-----------------------------------|---------------------|-----------------------------------|
| AS OF 6/30/2004 |                    |                                   |                     |                                   |
| MISCELLANEOUS   | 681                |                                   | \$ 7,179,989        |                                   |
| FIREFIGHTER     | 2                  |                                   | 42,737              |                                   |
| POLICE          | 25                 |                                   | 435,118             |                                   |
| <b>TOTAL</b>    | <b>708</b>         | <b>(15.4%)</b>                    | <b>\$ 7,657,844</b> | <b>(6.8%)</b>                     |
| AS OF 6/30/2003 |                    |                                   |                     |                                   |
| MISCELLANEOUS   | 817                |                                   | \$ 7,955,804        |                                   |
| FIREFIGHTER     | 4                  |                                   | 104,476             |                                   |
| POLICE          | 16                 |                                   | 153,997             |                                   |
| <b>TOTAL</b>    | <b>837</b>         | <b>(36.9%)</b>                    | <b>\$ 8,214,277</b> | <b>(15.2%)</b>                    |
| AS OF 6/30/2002 |                    |                                   |                     |                                   |
| MISCELLANEOUS   | 1280               |                                   | \$ 9,232,179        |                                   |
| FIREFIGHTER     | 13                 |                                   | 140,111             |                                   |
| POLICE          | 33                 |                                   | 318,718             |                                   |
| <b>TOTAL</b>    | <b>1326</b>        | <b>(3.8%)</b>                     | <b>\$ 9,691,008</b> | <b>(8.5%)</b>                     |

## FISCAL DIVISION

### *Administering mandated benefit programs and providing promised benefits*

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information include:

- Net Assets held in trust for Pension Benefits
- Statement of Changes in Plan Net Assets
- Actuarial Report and Historical Information
- Disclosures as required by Governmental Accounting Standards Board (GASB)

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Budget and appropriations control
- General ledger and all financial reporting

In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the Employees' Retirement System is adequately funded at all times.

The accompanying audited statements of net assets available for pension benefits as of June 30, 2004, and 2003 and the related statements of changes in net assets held in trust for pension benefits are presented to provide information on the financial status of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2004. We encourage readers who may have questions regarding any of the financial information provided to request from SFERS the full set of audited *Financial Statements and Supplemental Schedule* as prepared by the independent auditors.

## SFERS ACTUAL ADMINISTRATIVE EXPENDITURES 3 YEAR COMPARISON

| DESCRIPTION OF<br>EXPENDITURES | RETIREMENT SERVICES/ADMINISTRATION |                      |                      |
|--------------------------------|------------------------------------|----------------------|----------------------|
|                                | 2003-2004                          | 2002-2003            | 2001-2002            |
| PERSONNEL SERVICES             | \$ 4,386,050                       | \$ 4,500,386         | \$ 4,061,839         |
| EQUIPMENT PURCHASE             | 77,999                             | 74,669               | 337,752              |
| MATERIALS AND SUPPLIES         | 132,526                            | 88,733               | 47,862               |
| SERVICES OF OTHER DEPARTMENTS  | 4,795,078                          | 4,941,764            | 6,174,528            |
| OTHER SERVICES                 | 1,318,664                          | 1,139,438            | 1,204,578            |
| <b>TOTAL</b>                   | <b>\$ 10,710,317</b>               | <b>\$ 10,744,990</b> | <b>\$ 11,826,559</b> |

## SFERS ACTUAL ADMINISTRATIVE EXPENDITURES 3 YEAR COMPARISON INVESTMENT DIVISION

| DESCRIPTION OF<br>EXPENDITURES | INVESTMENT DIVISION  |                      |                      |
|--------------------------------|----------------------|----------------------|----------------------|
|                                | 2003-2004            | 2002-2003            | 2001-2002            |
| PERSONNEL SERVICES             | \$ 1,429,766         | \$ 1,427,269         | \$ 1,499,912         |
| EQUIPMENT PURCHASE             | 0                    | 7,105                | 21,654               |
| MATERIALS AND SUPPLIES         | 12,314               | 6,660                | 10,024               |
| SERVICES OF OTHER DEPARTMENTS  | 287,425              | 610,800              | 344,631              |
| OTHER SERVICES                 | 22,581,091           | 18,638,294           | 16,121,908           |
| <b>TOTAL</b>                   | <b>\$ 24,310,596</b> | <b>\$ 20,690,128</b> | <b>\$ 17,998,129</b> |

## SFERS ACTUAL ADMINISTRATIVE EXPENDITURES 3 YEAR COMPARISON ALL DIVISIONS

|                    |                     |                      |                      |
|--------------------|---------------------|----------------------|----------------------|
| <b>GRAND TOTAL</b> | <b>\$ 35,20,913</b> | <b>\$ 31,435,118</b> | <b>\$ 29,824,688</b> |
|--------------------|---------------------|----------------------|----------------------|

# SFERS PENSION FUND INVESTMENT INCOME

## FISCAL YEAR 2002-2003

|                                               | REALIZED<br>GAIN/LOSS | UNREALIZED<br>GAIN/LOSS | TOTAL                   |
|-----------------------------------------------|-----------------------|-------------------------|-------------------------|
| <b>INCOME</b>                                 |                       |                         |                         |
| CITY AND COUNTY CONTRIBUTIONS                 |                       |                         | \$ -                    |
| EMPLOYEE CONTRIBUTIONS                        |                       |                         | 170,550,162             |
| INTEREST EARNED                               |                       |                         | 161,532,291             |
| DIVIDENDS EARNED                              |                       |                         | 95,691,417              |
| SECURITIES LENDING INCOME-NET                 |                       |                         | 6,604,340               |
| DOLLAR ROLL INCOME - NET                      |                       |                         | 1,155,092               |
| RECAPTURED COMMISSION INCOME - NET            |                       |                         | 438,923                 |
| REAL ESTATE INCOME                            |                       |                         | 58,276,612              |
| ALTERNATIVE INVESTMENT INCOME                 |                       |                         | 40,142,042              |
| INVESTMENT EXPENSES                           |                       |                         | (24,323,833)            |
| <b>TOTAL INCOME:</b>                          |                       |                         | <b>\$ 510,067,046</b>   |
| <b>NET APPRECIATION IN FAIR VALUES</b>        |                       |                         |                         |
| SHORT-TERM SECURITIES                         | \$ 656,403            | \$ (7,642,741)          | \$ (6,986,338)          |
| EQUITIES                                      | 447,862,682           | 720,680,501             | 1,168,543,183           |
| DEBT SECURITIES                               | 39,907,336            | (91,485,729)            | (51,578,393)            |
| REAL ESTATE                                   | 28,057,783            | 6,543,201               | 34,600,984              |
| VENTURE CAPITAL                               | 133,291,773           | 93,416,699              | 226,708,472             |
| OTHER ASSETS                                  | 83,853                | 0                       | 83,853                  |
| <b>TOTAL NET APPRECIATION:</b>                | <b>\$ 649,859,830</b> | <b>\$ 721,511,931</b>   | <b>\$ 1,371,371,761</b> |
| <b>TOTAL INCOME AND NET APPRECIATION:</b>     |                       |                         | <b>\$ 1,881,438,807</b> |
| <b>INCREASE/(DECREASE) FROM FY 2002-2003:</b> |                       |                         | <b>\$ 1,293,153,783</b> |



# SFERS PENSION FUND DISBURSEMENTS PLAN YEAR 2003-2004

| PAYMENTS/EXPENSES                                            | AMOUNT                |
|--------------------------------------------------------------|-----------------------|
| SERVICE RETIREMENT PAYMENTS                                  | \$ 358,584,155        |
| DISABILITY RETIREMENT PAYMENTS                               | 96,253,603            |
| PROPOSITION C – COST OF LIVING ADJUSTMENT                    | 22,387,596            |
| DEATH ALLOWANCE PAYMENTS                                     | 3,692,157             |
| DEATH BENEFITS                                               | 2,724,833             |
| NORMAL CONTRIBUTIONS PAID AS DEATH BENEFIT                   | 3,490,378             |
| RETIRED ANNUITANT ROLLS (OPTION 1 DEATH BENEFIT)             | 1,296,619             |
| REFUNDS OF CONTRIBUTIONS                                     | 7,935,453             |
| ADMINISTRATIVE EXPENSES: RETIREMENT SERVICES/ ADMINISTRATION | 10,710,317            |
| <b>TOTAL PAYMENTS &amp; EXPENSES:</b>                        | <b>\$ 507,075,111</b> |
| <b>INCREASE/(DECREASE) FROM FY 2001-2002:</b>                | <b>\$ 35,852,230</b>  |

## SFERS CONTRIBUTIONS – 3 YEAR COMPARISON

### Employer (City and County) Contributions

The City and County of San Francisco had not been required to make employer contributions since 1996 due to the funding status of the Plan.

### Employee Contributions

| MEMBER PLAN        | PLAN YEAR<br>2003-2004 | PLAN YEAR<br>2002-2003 | PLAN YEAR<br>2001-2002 |
|--------------------|------------------------|------------------------|------------------------|
| MISCELLANEOUS PLAN | \$ 144,973,403         | \$ 156,350,260         | \$ 133,268,640         |
| FIREFIGHTER PLAN   | 11,778,242             | 11,744,300             | 10,386,844             |
| POLICE PLAN        | 13,798,516             | 13,975,304             | 12,262,637             |
| <b>TOTAL</b>       | <b>\$ 170,550,161</b>  | <b>\$ 182,069,864</b>  | <b>\$ 155,918,121</b>  |

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM  
STATEMENTS OF PLAN NET ASSETS

JUNE 30, 2004 AND 2003

Information derived from audited Financial Statements

| <u>ASSETS</u>                                               | <u>2004</u>          | <u>2003</u>          |
|-------------------------------------------------------------|----------------------|----------------------|
|                                                             | (in thousands)       |                      |
| Deposits                                                    | \$ 6,441             | \$ 12,684            |
| Contributions receivable – members                          | 4,542                | 9,175                |
| Investment income receivable:                               |                      |                      |
| Interest                                                    | 23,280               | 24,624               |
| Dividends                                                   | 6,404                | 5,106                |
| Securities lending                                          | 719                  | 356                  |
| Dollar Roll                                                 | 225                  | 163                  |
| Receivables from brokers, general partners, others          | 103,941              | 122,992              |
| Investments at fair value                                   |                      |                      |
| Short-term bills and notes                                  | 808,181              | 1,161,448            |
| Debt securities:                                            |                      |                      |
| U. S. government securities                                 | 1,263,547            | 1,137,162            |
| Other debt securities                                       | 2,117,807            | 1,911,606            |
| Equity securities                                           | 5,947,900            | 4,715,575            |
| Real Estate                                                 | 958,368              | 953,533              |
| Venture capital                                             | 1,311,960            | 1,249,167            |
| Forward currency contracts, net                             | —                    | 2,802                |
| Investments in lending agents' short term investment pool   | <u>1,356,618</u>     | <u>1,107,990</u>     |
| Total investments                                           | <u>\$ 13,764,381</u> | <u>\$ 12,239,283</u> |
| Total assets                                                | <u>\$ 13,919,933</u> | <u>\$ 12,414,382</u> |
| <br><u>LIABILITIES</u>                                      |                      |                      |
| Payable to brokers                                          | \$ 446,432           | \$ 560,809           |
| Obligations under fixed coupon dollar repurchase agreements | 199,000              | 205,782              |
| Foreign Currency Contracts, net                             | 3,558                | —                    |
| Other liabilities                                           | 6,968                | 6,789                |
| Payable to borrowers of securities                          | <u>1,356,618</u>     | <u>1,107,990</u>     |
| Total liabilities                                           | <u>2,012,575</u>     | <u>1,881,370</u>     |
| Net assets held in trust for pension benefits               | <u>\$ 11,907,358</u> | <u>\$ 10,533,013</u> |

**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

Information derived from audited Financial Statements

|                                                                       | <u>2004</u>    | <u>2003</u>   |
|-----------------------------------------------------------------------|----------------|---------------|
|                                                                       | (in thousands) |               |
| ADDITIONS                                                             |                |               |
| Members' contributions:                                               |                |               |
| Miscellaneous                                                         | \$ 144,973     | \$ 156,350    |
| Firefighter                                                           | 13,799         | 13,975        |
| Police                                                                | 11,778         | 11,744        |
| Total Contributions                                                   | \$ 170,550     | \$ 182,069    |
| Investment income (expenses)                                          |                |               |
| Interest                                                              | 161,532        | 174,461       |
| Dividends                                                             | 95,691         | 73,415        |
| Net (depreciation) appreciation in fair value of investments          | 1,470,606      | 172,125       |
| Securities lending income                                             | 15,391         | 22,288        |
| Fixed coupon dollar repurchase agreement income                       | 3,083          | 4,197         |
| Investment expenses                                                   | (24,700)       | (21,454)      |
| Securities lending borrower rebates and expenses                      | (8,786)        | (15,778)      |
| Fixed coupon dollar repurchase agreement finance charges and expenses | (1,928)        | (3,038)       |
| Investment gain/(loss), net                                           | 1,710,889      | 406,216       |
| Total additions/(deductions)                                          | \$ 1,881,439   | \$ 588,285    |
| DEDUCTIONS                                                            |                |               |
| Benefits                                                              | 488,448        | 452,264       |
| Refunds of contributions                                              | 7,935          | 8,214         |
| Administrative expenses                                               | 10,710         | 10,744        |
| Total Deductions                                                      | \$ 507,093     | \$ 471,222    |
| Net increase/(decrease)                                               | \$ 1,374,345   | \$ 117,063    |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS                         |                |               |
| Beginning of year                                                     | \$ 10,533,013  | \$ 10,415,950 |
| End of year                                                           | \$ 11,907,358  | \$ 10,533,013 |



## ACTUARIAL SUMMARY

The Retirement System pays an array of benefits to members and their survivors -- service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. The Plan valuation at the beginning of the Fiscal Year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2003 data. The results were first published in December 2003.

### ASSUMPTIONS AND METHOD

The main assumptions used to measure the System's liabilities for future benefits payments were:

|                            |                                                                                          |
|----------------------------|------------------------------------------------------------------------------------------|
| <b>Investment Returns</b>  | <b>8.00% per year</b>                                                                    |
| <b>Base Wage Increases</b> | <b>4.50% per year</b>                                                                    |
| <b>Merit and Promotion</b> | <b>Wage Increases<br/>1.3%, approximately (varies by<br/>group and years of service)</b> |
| <b>Retiree Mortality</b>   | <b>1994 Group Annuity Mortality Table</b>                                                |

The actuarial funding method used was as follows:

- ◆ entry age normal cost method
- ◆ unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- ◆ unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.

Required Employee Contributions 7-1-05 is 6.58%.

## KEY RESULTS

Using the method and assumptions detailed above, the key findings of the latest valuation were:

### Funded Status

|                                         |                       |
|-----------------------------------------|-----------------------|
| Actuarial Liability                     | 10,249,896,000        |
| Actuarial Value of Assets               | <u>11,173,636,000</u> |
| Unfunded Liability <Surplus>            | \$ <923,740,000>      |
| Funded Status<br>(assets / liabilities) | 109%                  |

### Employer (City and County) Contribution Rates

The retirement contribution rates to be paid by the City in Fiscal Year 2003-2004 were derived from the following actuarial valuation results:

|                                       |         |
|---------------------------------------|---------|
| NORMAL COST                           | 15.19%  |
| UNFUNDED LIABILITY & OTHER COSTS      | (6.80)% |
| EMPLOYEE CONTRIBUTIONS                | 7.53%   |
| CITY CONTRIBUTION RATE                | 4.48%   |
| BOARD APPROVED CITY CONTRIBUTION RATE | 4.48%   |













